

# WINTHROP REALTY TRUST

## FORM 10-K (Annual Report)

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

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**FORM 10-K**

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

For the Fiscal Year Ended December 31, 2013

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

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**WINTHROP REALTY TRUST**

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

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Ohio  
(State or other jurisdiction of  
incorporation or organization)

7 Bulfinch Place, Suite 500, Boston, Massachusetts  
(Address of principal executive offices)

34-6513657  
(IRS Employer  
Identification Number)

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**

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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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

As of March 1, 2014, there were 36,409,710 Common Shares outstanding.

At June 30, 2013, the aggregate market value of the Common Shares held by non-affiliates was \$394,931,691.

#### **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, 2013, are incorporated by reference into Part III hereof.

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

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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 wholly owned properties and investments in joint ventures which own investment properties, 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, 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, 2013 we held (i) interests in operating properties totaling \$868,736,000 containing approximately 5.3 million square feet of rentable space and 6,204 apartment units; (ii) loan assets totaling \$147,702,000 and (iii) cash and cash equivalents of \$112,512,000. We did not hold any REIT securities at December 31, 2013.

Our executive offices are located at 7 Bulfinch Place, Suite 500, Boston, Massachusetts 02114 and Two Jericho Plaza, Jericho, New York 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. Prior to this past year, FUR Advisors was an entity owned by our current executive officer and senior management and members of senior management of AREA Property Partners, a New York based real estate investment advisor. During 2013, certain of the AREA senior management member's interest in FUR Advisor was redeemed and, as a result, FUR Advisors is now majority owned by our current executive officers and senior management, including Michael L. Ashner and Carolyn Tiffany.

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 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.

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### 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 superior risk adjusted returns. These investments have in the past had, and may in the future have, returns weighted towards the back end of the invested life which negatively impact current earnings and funds from operations or FFO. 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 result in long term increased entity 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.

While we invested substantial capital in significant new investments in 2013, most notably the portfolio acquisition of four luxury residential multifamily high rise apartment buildings and our election to participate in the hotel portion of our 701 Seventh Avenue investment, we have of late observed very competitive pricing for quality real estate assets. We believe this pricing is a product of a continued relatively low interest rate environment and increasing amounts of capital directed to real estate and real estate related assets. We presently expect that during 2014, absent a change in the macroeconomic economy, new opportunities that meet our investment criteria may be limited. Nevertheless, we will continue to seek new investments and look to our existing portfolio for follow-on investment opportunities.

Consistent with this view, we have evaluated our stabilized mature assets with a view towards selling those assets to take advantage of rising prices and have begun executing on such sales. In so doing, we may increase our cash balances in order to take advantage of changes in the macroeconomic environment that may create favorable investment opportunities or consider other alternatives.

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 with 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 or otherwise 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.

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.

We utilize leverage to enhance our total potential return. 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.

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As a REIT, we are primarily dependent on external equity and debt financing to fund the growth of our business. The dividend requirements for a REIT significantly limit 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. This includes raising capital through public offerings of equity and debt securities. In this regard, in September 2013 we issued an additional 2,750,000 Common Shares through a public offering. 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 and Financing Activities

*1515 Market Street – loan modification, equity acquisition and refinancing* – 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 at 1515 Market Street, Philadelphia, Pennsylvania (“1515 Market Street”). On February 1, 2013 we entered into a loan modification agreement which extended the maturity date to February 1, 2016, increased the loan balance to \$71,629,000, from \$70,000,000, and changed the interest rate to be the greater of 7.5% or LIBOR plus 6.5%.

Simultaneously with the modification of the loan, we acquired, for \$10,000, an indirect 49% equity interest, including the 0.1% general partner interest, in the entity (“1515 Market Owner”) that owns the property located at 1515 Market Street, Philadelphia, Pennsylvania. As a result, we consolidate this property as of February 1, 2013 and all intercompany transactions, including those associated with our loan receivable are eliminated in consolidation.

On April 25, 2013 1515 Market Owner obtained a \$43,000,000 non-recourse first mortgage loan (the “1515 First Mortgage”) from an unaffiliated third party. The 1515 First Mortgage bears interest at LIBOR plus 2.0% per annum, requires monthly payments of interest only and matures on May 1, 2016. On the same date, the 1515 Market Owner entered into an interest rate swap agreement which effectively fixes LIBOR at 0.50% for the term of the 1515 First Mortgage. We received \$38,472,000 of loan proceeds from the 1515 First Mortgage financing which reduced the balance on the mortgage loan we hold to \$33,157,000. The loan balance can be increased through future funding advances up to an aggregate of \$6,000,000 to cover tenant improvements, capital expenditures and leasing commissions. For each \$500,000 of future advances, the interest rate increases by 0.10%. As of December 31, 2013 we had advanced an additional \$1,500,000 resulting in a 0.3% increase in the interest rate. The loan modification also provides us with a 40% participation interest in the case of a capital event. At December 31, 2013 the loan we hold had a balance of \$36,171,000 inclusive of accrued interest, and entitles us to interest in an amount equal to a rate of 14.3% (subject to increase by 0.10% for each additional \$500,000 we advance). At December 31, 2013 our investment in this loan was \$21,098,000 resulting in an effective interest rate on our cash investment in this asset of 19.6%.

*Summit Pointe Apartments – property acquisition* – On October 25, 2013 we contributed \$4,962,000 for an 80% equity interest in a newly formed venture. On the same date, the venture acquired a 184 unit garden apartment complex known as Summit Pointe Apartments located in Oklahoma City, Oklahoma for a gross purchase price of \$14,500,000. In connection with the acquisition, the venture assumed an existing \$9,248,000 first mortgage loan. The loan bears interest at a rate of 5.7% per annum, requires monthly payments of principal and interest and matures in February 2021. Pursuant to the terms of the venture agreement, we hold an equity interest which entitles us to an 8% priority return from cash flow and, upon disposition of the property, a minimum priority return equal to a 12% IRR.

*Luxury Residential – property acquisition* – On October 31, 2013 we acquired through a wholly owned venture four newly constructed luxury apartment buildings for an aggregate purchase price of \$246,000,000. The properties are located in Phoenix, Arizona; Stamford, Connecticut; Houston, Texas and San Pedro, California. The properties consist of an aggregate of 761 unsold residential condominium or apartment units and approximately 25,000 square feet of retail space. The acquisition was funded with a \$150,000,000 first mortgage loan which is cross collateralized by all four properties. The loan bears interest at a rate of LIBOR plus 2%, requires monthly payments of interest only and matures on October 31, 2016 with two one year extension options. The balance of the purchase was funded from cash on hand. On the same date, the venture



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entered into an interest rate swap agreement which effectively fixes LIBOR at 0.69% for the initial term of the first mortgage. In addition, the venture acquired two interest rate caps, each with a notional amount of \$50,000,000 for an aggregate cost of \$390,000. The initial cap is effective for the first one year extension period and caps LIBOR at 4%. The second cap is effective for the second one year extension period and caps LIBOR at 5%.

On November 6, 2013 New Valley LLC (“New Valley”) contributed approximately \$16,365,000 to the entity that acquired the properties in exchange for an indirect 16.3% interest in the properties. We retained an 83.7% interest in the venture and have the right to make all decisions with respect to each of the properties, other than the Stamford, Connecticut property, subject to obtaining New Valley’s consent to certain major decisions. With respect to the Stamford, Connecticut property, prior to November 6, 2016 the consent of New Valley is required on all matters other than those that are administrative in nature. New Valley has the right at any time after November 6, 2015 (or in certain instances prior thereto), but on or prior to November 6, 2016, to have its interest in the venture redeemed for a 50% interest in the Stamford, Connecticut property.

*Amherst, New York* – During 2013 we acquired four residential parcels adjacent to our Amherst, New York office property for an aggregate purchase price of \$896,000. We are in the process of leveling the acquired parcels and expanding the parking area for the office property. Development of this property is expected to be completed during the second quarter of 2014. The total estimated cost to complete the development is \$1,625,000, of which \$482,000 has been incurred as of December 31, 2013.

*Houston, Texas – Non Controlling Interest* – During 2013 we acquired two additional  $\frac{1}{4}$  limited partner units in 5400 Westheimer Holder LP (“Westheimer”) for an aggregate price of \$150,000. As a result of these transactions, we now own 32% of Westheimer.

*Churchill, Pennsylvania – financing* - On June 28, 2013 we obtained a \$5,100,000 first mortgage on our Churchill, Pennsylvania property. The loan bears interest at a rate of 3.5% per annum, requires monthly payments of principal and interest and matures on August 1, 2024. After closing costs, we received net proceeds of approximately \$4,922,000.

### Operating Property Acquisitions and Financing Activity - Equity Investments

*WRT-Elad Lender/Equity (Sullivan Center) – loan modification, equity investment and refinancing* – On August 21, 2013 we acquired from an affiliate of Elad Canada Inc. (“Elad”), our joint venture partner, its 50% joint venture interest (the “Elad Interest”) in WRT-Elad One South State Lender LP (“Lender LP”) for \$30,000,000 (“Acquisition Price”). The mezzanine loan had an outstanding balance of principal and accrued interest of approximately \$56,150,000 at the time the Elad Interest was acquired. Concurrently with the acquisition of the Elad Interest, we entered into an option agreement (the “Elad Option”) which grants Elad the option, but not the obligation, to repurchase its interest in Lender LP for the Acquisition Price adjusted for the pro-rata portion of any accrued and unpaid interest and principal payments made by the borrower. Per the terms of the agreements, the Elad Interest and Elad Option cannot be transferred to parties other than us and Elad. The term of the Elad Option corresponds with Lender LP’s mezzanine loan.

On October 18, 2013 the owner of the Sullivan Center property obtained a new \$113,500,000 first mortgage loan. The loan bears interest at a rate of 3.95% per annum, requires monthly payments of interest only and matures on November 6, 2018. The proceeds from the loan were used to repay the existing \$110,550,000 first mortgage loan which bore interest at a rate of 11.0% per annum.

In February 2013 our joint venture which holds an indirect future interest in Sullivan Center increased its future ownership interest from 65% to 70%, which interest was further increased to 76% in November 2013. The increases were in exchange for a forbearance by Lender LP with respect to the failure by the borrower to make required debt service payments from January 2013 through October 2013. Our ownership interest becomes direct in 2018.

*Atrium Mall LLC – equity investment* - On June 20, 2013 we, through a newly formed 50-50 joint venture with Marc Realty, acquired a non-performing \$10,650,000 mortgage loan for \$6,625,000. In addition, the joint venture paid \$1,137,000 to fund escrows at the closing. We invested a total of \$3,935,000 in this joint venture during 2013. The loan was in maturity default at the time of acquisition and was acquired with the intention of foreclosing or working out a consensual assignment with the borrower. The loan was collateralized by a leasehold interest in the Atrium Mall in Chicago, Illinois. The leasehold interest is for 71,000 square feet of commercial/retail space that comprises the bottom three floors of an office building known as the James R. Thompson building of which the lease expires in September 2014 with six automatic five-year extensions which are exercisable at the lessee’s option. The building is owned by the State of Illinois.

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On July 26, 2013 the joint venture entered into an agreement with the borrower pursuant to which the borrower conveyed the leasehold interest to the venture in lieu of foreclosure. Accordingly, the venture now holds the leasehold interest in the property.

*701 Seventh Avenue, New York, New York – equity investment* – During 2013, with respect to the joint venture that indirectly owns the property located at 701 Seventh Avenue, New York, New York we elected to participate in the future hotel development, and during 2013, we made additional cash contributions to the venture totaling \$24,465,000. We have contributed an additional \$33,419,000 in 2014 bringing our total capital contributed at such date to \$86,855,000 against our \$125,000,000 commitment. The contribution was made concurrently with the refinancing of the property's existing indebtedness with a new \$237,500,000 mortgage loan and \$315,000,000 mezzanine loan of which \$346,500,000 was advanced at closing with the balance to be advanced for constructions costs of the approximately 80,000 square feet of retail space which will include an approximately 120 foot high, 20,000 square foot state of the art LED sign. Both the mortgage loan and mezzanine loan bear interest at LIBOR plus 8% per annum, require payments of interest only and mature January 31, 2017, subject to two-one year extension terms. These loans refinanced the then existing mortgage and mezzanine loans that bore interest at LIBOR plus 11% per annum.

In addition, the venture also entered into two additional loan agreements providing for supplemental loans totalling \$262,500,000, which agreements are held in escrow and only become effective upon the satisfaction of certain conditions. At such time as such loan agreements are released from escrow, if at all, the venture will be permitted to draw on such loans to provide additional construction financing in order to develop a 452 room hotel which will be constructed above the retail component. If fully funded, the maximum aggregate debt among the various loans funded would be \$815,000,000.

Simultaneous with entering into the loans, the venture executed an agreement with a wholly-owned affiliate of Marriott International, Inc. (NASDAQ: MAR) to manage and operate an "EDITION" hotel at the property. The hotel will include 452-rooms and approximately 30,000 square feet of food, beverage and entertainment space. As additional collateral for the lenders, Marriott International, Inc. agreed to provide the lenders with the right upon an uncured event of default under the loan agreement by the venture to require Marriott to purchase the hotel component of the property during the first two years after opening for \$314,600,000.

Construction of the retail and hotel space is expected to be completed in 2017. It is currently budgeted that we will contribute an additional \$13,145,000 during 2014 against our remaining commitment of \$38,145,000.

*WRT-Fenway Wateridge – mortgage loan* – On October 15, 2013, our venture that holds this property obtained a \$7,000,000 first mortgage loan on its San Diego, California property. The loan bears interest at the greater of 6%, or LIBOR plus 4.5% per annum, requires monthly payments of interest only and matures on November 1, 2016. The venture purchased an interest rate cap which caps LIBOR at 2.5%. In connection with the financing, we received a distribution of \$6,255,000 in partial redemption of our preferred equity investment. We retain the balance of our preferred equity interest as well as a 50% equity interest in the venture.

### Operating Property Disposition Activity

*Andover, Massachusetts – property sale* - On March 28, 2013 we sold our Andover, Massachusetts office property to an independent third party for gross sale proceeds of \$12,000,000. After costs and pro-rations, we received net proceeds of approximately \$11,425,000 and recorded a gain of \$2,775,000 on the sale of the property.

*Deer Valley, Arizona – property sale* - On June 11, 2013 we sold our Deer Valley, Arizona office property to an independent third party for gross sale proceeds of \$20,500,000. After costs and pro-rations, we received net proceeds of approximately \$19,585,000 and recorded a gain of \$6,745,000 on the sale of the property.

*Denton, Texas – property sale* - On July 2, 2013 we sold our Denton, Texas retail property to an independent third party for gross sale proceeds of \$1,850,000. After costs and pro-rations, we received net proceeds of approximately \$1,703,000. No gain or loss was recognized on the sale of the property.

*Seabrook, Texas – property sale* - On August 1, 2013 we sold our Seabrook, Texas retail property to an independent third party for gross sale proceeds of \$3,300,000. After costs and pro-rations, we received net proceeds of approximately \$3,202,000 and recorded a gain of \$1,428,000 on the sale of the property.

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*Lisle, Illinois – property sale* – On December 17, 2013 we sold our Lisle, Illinois office property known as 701 Arboretum to an independent third party for gross sale proceeds of \$2,500,000. After costs and pro-rations we received net proceeds of approximately \$2,351,000 and recorded a gain of \$58,000 on the sale of the property.

*Meriden, Connecticut – property sale* - On February 26, 2014 we sold our Meriden, Connecticut property to an independent third party for gross sale proceeds of \$27,500,000. After costs and pro-rations and a transfer of the mortgage debt, we received net proceeds of approximately \$5,106,000 on the sale of the property. This property was under contract to be sold with a \$500,000 non-refundable deposit as of December 31, 2013. This property was classified as held for sale as of December 31, 2013 and the results of operations have been classified as discontinued operations for all periods presented in the consolidated interim financial statements.

### Operating Property Dispositions through our Equity Investments

*Sealy Airpark – Nashville, Tennessee – foreclosure* – On October 7, 2013 the lender foreclosed on the loan that was collateralized by this property. We held our interest in this property through a venture that was managed by our partner and had previously written down our investment to zero. Accordingly, for financial reporting purposes we did not recognize a gain or loss in connection with the foreclosure.

*Sealy Newmarket – Atlanta, Georgia – foreclosure* – On December 2, 2013 the lender foreclosed on the loan that was collateralized by this property. We held our interest in this property through a venture that was managed by our partner and had previously written down our investment to zero. Accordingly, for financial reporting purposes we did not recognize a gain or loss in connection with the foreclosure.

### Operating Property Significant Leasing Activity

*Amherst, New York* – On July 29, 2013 we entered into a lease amendment with the existing tenant, Ingram Micro Inc., which leases the entire 200,000 square foot premises. The initial lease was signed in 1988 and was scheduled to expire October 31, 2013 (subject to two five-year extensions). The new lease extends the term through October 31, 2023 with one ten-year or two five-year renewal options. Lease payments under the amendment remained unchanged through the expiration of the original lease. Annual rents under the original lease were \$2,016,000. Annual rents under the amended lease are \$1,802,000 for the period November 1, 2013 through October 31, 2018 and \$2,002,000 for the period November 1, 2018 through October 31, 2023. The base rent is subject to increase upon the delivery of additional parking area to the tenant, which is expected to be completed during the second quarter of 2014. Annual rents are expected to increase by approximately \$200,000 upon the delivery of the additional parking.

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### Loan Assets

The following table sets forth certain information relating to our loans receivable, loan securities carried at fair value and loans held in equity investments. All information presented is as of December 31, 2013 (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>								
Hotel Wales (10)	Whole loan	Hotel	New York, NY	LIBOR + 4% (5)	\$ 20,101	\$20,000	10/05/14	\$ —
Shops at Wailea	B Note	Retail	Maui, HI	6.150%	6,292	7,584	10/06/14	106,170
Legacy Orchard	Secured	Corporate Loan	n/a	15.00%	9,750	9,750 (6)	10/31/14	—
Queensridge Towers	Whole loan	Multi-Family	Las Vegas, NV	LIBOR + 11.5% (7)	2,942	2,908	11/15/14	—
San Marbeya (10)	Whole loan	Multi-Family	Tempe, AZ	5.88%	28,546	29,305	01/01/15	—
Playa Vista *	Mezzanine	Office	Playa Vista, CA	LIBOR + 14.25%	10,327	10,250	01/23/15	80,300
Churchill	Whole loan	Mixed use	Churchill, PA	LIBOR + 3.75%	683	683	06/01/15	—
Rockwell (8)	Mezzanine	Industrial	Shirley, NY	12.00%	—	1,486	05/01/16	16,383
500-512 7th Ave	B Note	Office	New York, NY	7.19%	10,250	10,871	07/11/16	243,870
Pinnacle II	B Note	Office	Burbank, CA	6.313%	4,648	5,071	09/06/16	83,469
Poipu Shopping Village	B Note	Retail	Kauai, HI	6.618%	2,058	2,823	01/06/17	28,547
Wellington Tower	Mezzanine	Mixed use	New York, NY	6.79%	2,991	3,502	07/11/17	22,500
Mentor Building	Whole loan	Retail	Chicago, IL	10.00%	2,512	2,497	09/10/17	—
					<u>\$101,100</u>			
<u>Loan Securities</u>								
WBCMT 2007 WHL8	CMBS	Hotel	Various	LIBOR + 1.75%	\$ 226	\$ 1,130	03/09/14	\$1,232,004
					<u>\$ 226</u>			
<u>Loans in Equity Investment</u>								
(9)								
Stamford Office *	Mezzanine	Office	Stamford, CT	LIBOR + 3.25%	\$ 9,064	\$ 9,400	08/06/14	\$ 400,000
					<u>\$ 9,064</u>			

\* Loan Asset was acquired in 2013. Additional loan asset details are described below.

- 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.
- Carrying amount includes all applicable accrued interest and accretion of discount.
- Maturity date after giving effect to all contractual extensions.
- Debt which is senior in payment and priority to our loan.
- Minimum rate of 7.0%.
- Par value is presented at the borrower's discounted payoff option (DPO) amount.
- Minimum rate of 12.0%.
- Loan defaulted in December 2013. Carrying amount reflects a \$348 loan loss reserve.
- Does not include our equity interests in Concord, RE CDO Management and WRT-Elad.
- Serve as collateral for our secured financings. The weighted average borrowing cost for these loans is 4.56%. The ratio of debt to receivable is 59%.

### Loan Asset Origination Activity

*Playa Vista, California – loan origination* - On January 24, 2013 we originated a \$20,500,000 mezzanine loan collateralized by a 260,000 square foot office campus in the Los Angeles, California area. The loan is subordinate to an \$80,300,000 mortgage loan, matures January 23, 2015, bears interest at LIBOR plus 14.25% per annum, with a 0.5% LIBOR floor and requires payments of interest only at a rate of 8.25% with the remaining interest being accrued and added to principal. In connection with the origination, the borrower paid to us an origination fee of \$205,000. On March 1, 2013 we sold a 50% pari passu participation interest in the loan for \$10,250,000 and gave the transferee a credit of \$100,000 from the initial loan origination.

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### Loan Asset Repayment/Disposition Activity

*Disney B Note – sale of participation* - On January 25, 2013 we sold for \$9,000,000 a 100% participation interest in the \$10,000,000 B Note collateralized by an office building located in Burbank, California. The selling price was equal to our carrying value of the B Note.

*127 West 25<sup>th</sup> Street – loan payoff* - On March 1, 2013 the \$8,583,000 loan collateralized by the property located at 127 West 25th Street, New York, New York was paid off in full at par.

*180 N Michigan – loan payoff* - On March 28, 2013 the \$5,200,000 loan collateralized by the property located at 180 North Michigan Avenue, Chicago, Illinois was paid off in full at par.

*Fenway Shea – loan payoff* - On June 14, 2013 the \$2,250,000 loan collateralized by the property located at Shea Blvd. in Phoenix, Arizona was paid off in full at par.

*Renaissance Walk – loan payoff* - On October 31, 2013 the \$3,000,000 loan collateralized by the property known as Renaissance Walk located in Atlanta, Georgia was paid off in full at par.

*Queensridge Tower – loan payments* - During 2013, several of the condominium units collateralizing the Queensridge Tower loan receivable were sold resulting in payments to us of approximately \$35,863,000. We made corresponding pay downs of \$23,770,000 in full satisfaction of our recourse debt with KeyBank which was collateralized by the Queensridge Tower loan receivable.

*Loan Portfolio – loan sale* - In February 2014 we sold our interests in the loans secured directly or indirectly by Hotel Wales, Wellington Tower, 500-512 Seventh Avenue, Legacy Orchard and San Marbeya for an aggregate sales price of \$42,917,000 and the senior participations in the Hotel Wales and San Marbeya loans, which for financial reporting purposes were classified as secured financings, were deemed assumed by the purchaser for financial reporting purposes. In connection with the sale, we retained an interest only participation in each of the Legacy Orchard loan and the Hotel Wales loan entitling us to payments equal to interest at 2.5% per annum on the principal amount of the Legacy Orchard loan and 0.5% per annum on the principal amount of the Hotel Wales loan.

### Loan Asset Activity through our Equity Investments

*RE CDO Management – asset sales* - On February 20, 2013, RE CDO Management (“RE CDO”), an entity in which we hold a 50% interest, sold its subordinated interests in, and collateral management agreement with respect to, Sorin CDO III for \$2,750,000. On March 8, 2013 RE CDO sold its C Tranche subordinated interests in Sorin CDO IV for \$6,240,000. As a result of the sales, we received distributions of approximately \$4,416,000 in the aggregate. RE CDO had originally acquired the sold assets and its interest in Sorin CDO IV, which it still retains, for \$2,500,000.

*CDH CDO LLC – sale of interest* - On February 25, 2013 we sold for \$25,000 a 17% interest in the equity of CDH CDO, exclusive of the interest in the entity that holds the collateral management agreement of CDH CDO, to Inland American. As a result of the sale, we now hold a 49.67% interest in CDH CDO. We maintain 100% of CDH CDO’s interest in WRP Management.

*10 Metrotech Loan LLC – equity investment repayment* - On July 30, 2013 the \$40,000,000 loan collateralized by the property at 10 Metrotech Center, Brooklyn, New York and held by a venture in which we held a one-third interest was paid off at par. The venture had acquired the loan in August 2012 for \$32,500,000. As a result of the payoff, we received a distribution of \$13,333,000.

*Concord Debt Holdings and CDH CDO – loan payoffs* - Two of the underlying loans held by our Concord ventures paid off during the third quarter of 2013. In July 2013 the loan collateralized by the property commonly referred to as Thanksgiving Tower located in Dallas, Texas was satisfied. In August 2013 the loan collateralized by the property referred to as One Riverwalk located in San Antonio, Texas was satisfied. As a result of the loan payoffs we received an aggregate distribution of \$6,470,000.

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### REIT Securities

During 2013 we liquidated all of our holdings of REIT securities. In particular, we sold 3,000,716 shares of common stock in Cedar Realty Trust, Inc. ("Cedar") which we had acquired for an aggregate cost of \$12,891,000 for aggregate sales proceeds of \$16,292,000. We also sold 1,250,000 shares of MPG Office Trust Inc. which we had acquired for an aggregate cost of \$2,984,000 for aggregate sale proceeds of \$3,626,000.

### Revolving Line of Credit

We maintain a revolving line of credit with KeyBank National Association, which we refer to as KeyBank. Pursuant to the terms of the line (i) we are permitted to borrow up to \$50,000,000, subject to having a sufficient borrowing base and (ii) interest accrues on all borrowings at LIBOR plus 3%. We pay to KeyBank a quarterly fee of 0.35% on the unused portion of the line. The line of credit matured on March 3, 2014 and we did not exercise our option to extend the line for an additional year. At December 31, 2013 we had no amounts outstanding on the line.

### Employees

As of December 31, 2013 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."

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, 2013 the threshold amount required to be distributed before any incentive fee would be payable to FUR Advisors was \$563,966,000, which was equivalent to \$15.75 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 \$12.82 per Common Share in excess of the Growth Factor have been paid. For example, if the Trust had been liquidated at January 1, 2014, the supplemental fee would only have been payable if total dividends of approximately \$12.82 per Common Share had been paid, and then only until the total supplemental fee paid would have equaled \$9,289,000 (the base management fee for calendar 2013), which amount would be achieved when total dividends paid per Common Share equaled approximately \$14.12.

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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 600,000 restricted Common Shares, which Common Shares were issued under our 2007 Long Term Incentive Plan. The restricted Common Shares were issued as follows:

<u>Name and Position</u>	<u>Number of Shares</u>
Michael L. Ashner, Chairman and CEO	198,000
Carolyn Tiffany, President	102,000
John Garilli, Chief Financial Officer	75,000
John Alba, Chief Investment Officer	75,000
Non-Executive Officer Employee Group	150,000

The restricted Common Shares issued 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. On December 4, 2013, 7,500 shares were forfeited by a Non-Executive Officer.
- 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) in the case of Michael Ashner and Carolyn Tiffany, in the event of 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



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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 23.

### **Additional Information**

The following materials are available free of charge through our website at [www.winthropreit.com](http://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 22, 2013, following our 2013 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;
- 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, 2013, we had approximately \$112,512,000 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.

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### ***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 effect 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.

### ***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

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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, 2013, our 11 single tenant properties, containing an aggregate of approximately 2,093,000 square feet of space are net leased to 9 different tenants. Gross leases accounting for approximately 4% of the aggregate annual base rent from our operating properties for 2013, representing approximately 3% of the net rentable square feet at the properties, are scheduled to expire in 2014. Other leases grant tenants early termination rights upon payment of a termination penalty. Lease expirations will require us to locate new tenants and negotiate replacement leases with them. The costs for tenant improvements, tenant concessions and leasing commissions with respect to new leases are traditionally greater than costs relating to renewal leases. If we are unable to promptly relet or renew leases for all or a substantial portion of the space subject to expiring leases, or if the rental rates upon such renewal or reletting are significantly lower than expected, our revenue and net income could be adversely affected.

### ***We are subject to risks associated with the financial condition of our 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.

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### ***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.

### ***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 affects 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 effect 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.

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### ***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.

### ***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.***

A deterioration in the credit markets will make it extremely difficult for borrowers to obtain mortgage financing. The inability of borrowers to obtain replacement financing has, in the past, led and will in the future, likely 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 will affect our operations and viability in a number of ways including:

- Depressing prices for our investments, operating properties and loan assets;

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- 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.

***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

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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.

### ***We may issue Common Shares or equity or debt securities convertible into Common Shares at a price or conversion price less than our then per Common Share net asset value.***

Our Common Share price has historically traded at a price less than our estimated per Common Share net asset value. Accordingly, if we were to issue additional Common Shares or debt or equity securities convertible into Common Shares it is likely that the offer price or conversion price, as applicable, will be less than such net asset value. As a result, such issuance would create a dilution to the net asset value of our assets until such time, if at all, as the proceeds from such offering were invested in assets that are accretive to our net asset value.

### ***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



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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.

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



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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, which we refer to as the Advisers Act, because they provide collateral management services to private funds as defined under the Advisers Act. As registered investment advisers, 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.

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.

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### ***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, 2013, the threshold amount required to be distributed before any incentive fee would be payable to FUR Advisors was approximately \$563,966,000 which was equivalent to \$15.75 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 \$458,986,000 which was equivalent to \$12.82 for each of our Common Shares on a fully diluted basis. At such time as shareholders' equity in accordance with generally 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 9.4% of our outstanding Common Shares and serve as our executive officers. Accordingly, if we were inclined to terminate the Advisory Agreement, the ownership position of our Advisor in our Common Shares could result in other adverse effects to us and the price of our Common Shares.

### ***If we recognize substantial impairment charges on our properties, loan assets, or equity and preferred equity investments, our net income may be reduced.***

On a combined basis, we have recognized impairment charges and loan loss reserves totaling \$10,939,000, \$3,260,000 and \$28,658,000 for the years ended December 31, 2013, 2012 and 2011, respectively. In the future, we may incur substantial impairment charges, which we are required to recognize whenever we sell a property or loan asset for less than its carrying value or we determine that the carrying amount of the property or loan asset is not recoverable and exceeds its fair value. For equity and preferred equity investments, we are required to recognize impairment charges when the estimated fair value of the

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investment's underlying net assets in comparison to the carrying value of our interest in the investment has declined on an other-than-temporary basis. By their nature, the timing and extent of impairment charges are not predictable. We may incur non-cash impairment charges in the future, which may reduce our net income.

### 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, 2013. Our portfolio of consolidated properties consists of 19 commercial properties consisting of 3,671,000 square feet and seven residential apartment complexes consisting of 1,549 units.

Description and Location	Year Acquired	Trust's Ownership	Rentable Square Feet	(**) % Leased	Major Tenants (Lease / Options Expiration)	Major Tenant Sq. Ft.	(\$000's) Depreciated	Cost per	Ownership of Land	(\$000's) Debt	Debt Maturity & Int Rate (2)
							Cost Basis	Square Foot or Unit		Balance	
Office Amherst, NY	2005	100%	200,000	100%	Ingram Micro Systems (2023/2033)	200,000	\$ 17,108	\$ 86	Fee	(1)	(1)
Cerritos, CA (3)	2012	100%	187,000	80%	Sunwest (2018)	37,000	21,884	117	Fee	\$ 23,142	01/2017 5.07%
Chicago, IL (One East Erie)	2005	100%	126,000	97%	River North Surgery (2023)	15,000	20,718	164	Fee	19,856	03/2016 5.75%
Chicago, IL (River City / Marc Realty)	2007	60%	253,000	50%	ITAV (2024/2029) MFS/Worldcom (2019/2023)	37,000 60,000	14,252	56	Fee	8,579	04/2015 5.50%
Englewood, CO Crossroads I	2010	100%	118,000	96%	Hitachi Data (2024/2034) RGN-Denver LLC (2015/ 2025)	61,000 17,000	7,283	62	Fee	(1)	(1)
Englewood, CO Crossroads II	2010	100%	118,000	96%	TIC Holdings (2019/2044)	95,000	9,989	85	Fee	(1)	(1)
Houston, TX	2004	32%	614,000	100%	Spectra Energy (2026/2036)	614,000	55,358	90	Fee	47,201	04/2016 6.01%
Lisle, IL	2006	100%	169,000	78%	United Healthcare (2015)	41,000	18,827	111	Fee	5,752	10/2014 Libor+2.5%
Lisle, IL (Marc Realty)	2006	60%	54,000	100%	Ryerson (2018/2023)	54,000	3,637	67	Fee	5,470	03/2017 5.55%
New York, NY (450 West 14th)	2011	(4)	105,000	82%	Alice + Olivia (2021/2031) Fast Retailing (2026/2036) Access Industries (2021/2031)	27,000 23,000 14,000	56,507	194	Ground Lease	51,950	05/2016 Libor + 2.5%
Orlando, FL	2004	100%	257,000	100%	Siemens Real Estate, Inc. (2017/2042)	257,000	13,346	52	Ground Lease	36,983	07/2017 6.40%
Philadelphia, PA (1515 Market Street)	2013	49%	502,000	73%	Temple University (2022)	128,000	43,391	86	Fee	42,440	05/2016 Libor+2.0%
Plantation, FL	2004	100%	120,000	100%	AT&T Service, Inc. (2020/2035)	120,000	10,897	91	Fee	10,684	04/2018 6.48%
South Burlington, VT	2005	100%	54,000	100%	Fairpoint Comm. (2014)	54,000	2,737	51	Ground Lease	(1)	(1)
Subtotal - Office			2,877,000				\$ 295,934			\$ 252,057	

(Continued on next page)

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### CONSOLIDATED OPERATING PROPERTIES (Continued)

Greensboro, NC	2004	100%	46,000	100%	The Kroger Co. (2017/2037)	46,000	2,934	64	Ground Lease	(1)	(1)
Louisville, KY	2004	100%	<u>47,000</u>	100%	The Kroger Co. (2015/2040)	47,000	<u>2,477</u>	53	Fee	(1)	(1)
<b>Subtotal Retail</b>			<b><u>154,000</u></b>				<b><u>\$ 7,227</u></b>				
<b>Other</b>											
<b>Warehouse</b>											
Jacksonville, FL	2004	100%	588,000	100%	Football Fanatics (2015/2024)	561,000	\$ 10,550	18	Fee	(1)	(1)
<b>Mixed Use</b>											
Churchill, PA	2004	100%	<u>52,000</u>	100%	Westinghouse (2024)	52,000	<u>5,529</u>	106	Fee	<u>\$ 5,049</u>	08/2024 3.50%
<b>Subtotal - Other</b>			<b><u>640,000</u></b>				<b><u>\$ 16,079</u></b>			<b><u>\$ 5,049</u></b>	
<b>Residential</b>											
Memphis, TN	2012	100%	320 units	93%	n/a	n/a	\$ 20,298	65	Fee	\$ 13,125	08/2014 Libor + 2.5%
Houston, TX	2013	84%	396 units	90%	n/a	n/a	104,519	264	Fee	64,635	10/2016 LIBOR + 2.0%
San Pedro, CA	2013	84%	89 units	99%	n/a	n/a	19,733	222	Fee	12,195	10/2016 LIBOR + 2.0%
Stamford, CT	2013	84%	92 units	95%	n/a	n/a	78,852	857	Fee	48,780	10/2016 LIBOR + 2.0%
Phoenix, AZ	2013	84%	184 units	93%	n/a	n/a	39,360	214	Fee	24,390	10/2016 LIBOR + 2.0%
Greensboro, NC (5)	2012	100%	284 units	96%	n/a	n/a	17,809	65	Fee	14,735	08/2016 6.22%
Oklahoma City, OK	2013	80%	<u>184 units</u>	97%	n/a	n/a	<u>14,609</u>	79	Fee	<u>9,967</u>	02/2021 5.7%
<b>Subtotal - Residential</b>			<b><u>1,549 units</u></b>				<b><u>\$295,178</u></b>			<b><u>\$187,827</u></b>	
<b>Total Consolidated Properties</b>			<b><u>3,671,000</u></b>				<b><u>\$614,420</u></b>			<b><u>\$444,933</u></b>	

(\*\*) 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 one month LIBOR rate at December 31, 2013 was 0.1677%.
- (3) The stated debt balance is the fair value of the debt at December 31, 2013. The contractual debt balance was \$23,000 at December 31, 2013.
- (4) We hold a preferred equity interest. At December 31, 2013 our effective ownership interest was 88%.
- (5) The stated debt balance is the fair value of the debt at December 31, 2013. The contractual debt balance was \$13,600 at December 31, 2013.

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### UNCONSOLIDATED OPERATING PROPERTIES

The following table sets forth a schedule of unconsolidated operating properties at December 31, 2013. Our portfolio of unconsolidated properties is accounted for under the equity method of accounting. These properties consist of 10 commercial properties consisting of 2,339,000 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 (13)
<b>Marc Realty Portfolio - Equity Investments</b>										
223 West Jackson Chicago, IL (Brooks Building)	2005	50%	168,000	75%	No tenants over 10%	—	6,551	Fee	6,770	09/2017 Libor + 2.75%
4415 West Harrison Hillside, IL (High Point)	2005	50%	192,000	65%	North American Medical Mgmt (2015/2020)	24,000	—	Fee	4,335	12/2015 5.62%
1701 E. Woodfield, Schaumburg, IL	2005	50%	175,000	87%	No tenants over 10%	—	150	Fee	5,369	09/2015 Libor + 3% (2)
2205-55 Enterprise Westchester, IL	2005	50%	130,000	91%	Consumer Portfolio (2014/2019)	18,900				
					Uro Partners (2015)	14,500	50	Fee	8,759	10/2019 4.30%
<b>Total - Marc Realty Portfolio</b>			<b>665,000</b>				<b>\$ 6,751</b>		<b>\$25,233</b>	
<b>Sealy Venture Properties - Equity Investments</b>										
Atlanta, GA (Northwest Atlanta)	2006	60%	<b>472,000</b>	77%	Original Mattress (2020/2025)	57,000	<b>\$ 7,635</b>	Fee	<b>\$ 13,592</b>	09/2015 Libor + 5.35% (3)
<b>Mentor Retail LLC - Equity Investment</b>										
39 South State Street Chicago, IL	2012	50%	<b>7,000</b>	100%	American Apparel (2022)	7,000	<b>\$ 635</b>	Fee	<b>\$ 2,497</b>	09/2017 10%
<b>WRT-Elad One South State - Equity Investment</b>										
One South State Street Chicago, IL (Sullivan Center)	2012	38%	<b>942,000</b>	83%	Target (2038/2063) Walgreens (2022/2027) Illinois Dept. of Employment (2019/2024) Art Institute of Chicago (2020/2030)	147,000 95,000 243,000 153,000	<b>\$ 23,661</b>	Fee	<b>\$113,500</b>	11/2018 3.95%
<b>701 Seventh WRT Investor - Equity Investment</b>										
701 Seventh Avenue New York, NY	2012	54%	<b>Under Development</b>		(5)	—	<b>\$ 55,259</b>	Fee	<b>\$376,600</b>	10/2015 LIBOR + 10.20%(4)
<b>WRT-Fenway Wateridge - Equity Investment</b>										
10525 Vista Sorrento Parkway San Diego, CA	2012	50%	<b>62,000</b>	89%	Verint Americas (2018) Flores Lund (2017) Quidel Corp. (2014) Verizon Wireless (2016)	6,500 10,000 11,000 13,000	<b>\$ 1,898</b>	Fee	<b>\$ 7,000</b>	11/2016 Greater of 6% or LIBOR + 4.5%(6)
<b>Atrium</b>										
Chicago, IL	2013	50%	<b>71,000</b>	76%	No tenants over 10%	—	<b>\$ 3,845</b>	Fee	<b>\$ —</b>	

(\*\*) 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 (8)	Subordinated Debt (\$ 000's)	Subordinated Debt Maturity
<b>Vintage Housing Holdings LLC - Equity Investment</b>									
Agave Associates Elk Grove, CA	2011	(7)	188	97%	Fee	\$ 14,600	10/2036 SIFMA + 1.28%	\$ 2,500	12/2036 3.50%
Vintage at Bend Bend, OR	2011	(7)	106	99%	Fee	5,500	12/2036 SIFMA + 1.24%		
The Bluffs Apartments Reno, NV	2011	(7)	300	96%	Fee	18,300	10/2035 SIFMA + 1.57%	8	7/2033 3%
Bouquet Canyon Seniors Santa Clarita, CA	2011	(7)	264	98%	Fee	10,728	7/2028 6.38%		
Vintage at Bremerton Bremerton, WA	2011	(7)	143	95%	Fee	6,200	3/2033 SIFMA + 1.55%		
Vintage at Burien Burien, WA	2011	(7)	101	96%	Ground Lease	6,680	1/2038 SIFMA + 1.50%		
Vintage at Chehalis Chehalis, WA	2011	(7)	150	100%	Fee	8,190	6/2040 SIFMA + 1.70% (9)		
Elk Creek Apartments Sequim, WA	2011	(7)	138	95%	Fee	7,302	11/2039 6.60%		
Vintage at Everett Everett, WA	2011	(7)	259	100%	Fee	16,180	1/2038 SIFMA + 1.50%		
Falls Creek Apartments Couer d' Alene, ID	2011	(7)	170	93%	Fee	8,267	12/2040 6.37%		
Forest Creek Apartments Spokane, WA	2011	(7)	252	96%	Fee	13,680	6/2040 SIFMA + 1.68%		
Hamilton Place Seniors Bellingham, WA	2011	(7)	94	96%	Fee	3,590	7/2033 SIFMA + 1.67%	43	7/2014 5.88%
Heritage Place Apartments St. Ann, MO	2011	(7)	113	90%	Fee	1,732	7/2015 8.37%	490	5/2039 1.0%
Holly Village Apartments Everett, WA	2011	(7)	149	97%	Fee	6,870	7/2032 SIFMA + 1.58%		
Larkin Place Apartments Bellingham, WA	2011	(7)	101	96%	Fee	4,825	7/2033 SIFMA + 1.51%		
Vintage at Mt. Vernon Mt. Vernon, WA	2011	(7)	154	99%	Fee	7,500 930	1/2037 SIFMA + 1.73% (10) SIFMA + 1.73% (11)		
Vintage at Napa Napa, CA	2011	(7)	115	99%	Fee	5,899	6/2034 6.26%		
Vintage at Richland Richland, WA	2011	(7)	150	96%	Fee	7,535	1/2038 SIFMA + 1.83%		
Rosecreek Senior Living Arlington, WA	2011	(7)	100	99%	Fee	3,267	12/2037 SIFMA + 0.51%		
Vintage at Sequim Sequim, WA	2011	(7)	118	98%	Fee	6,234	3/2038 SIFMA + 2.35%		
Silver Creek Apartments Pasco, WA	2011	(7)	242	97%	Fee	12,775	1/2018 SIFMA + 1.75%		
Vintage at Silverdale Silverdale, WA	2011	(7)	240	97%	Fee	14,880	9/2039 SIFMA + 2.89% (12)		
Vintage at Spokane Spokane, WA	2011	(7)	287	99%	Fee	16,295	8/2040 SIFMA + 1.46%		
Seven Hills/ St Rose Henderson, NV	2011	(7)	244	97%	Fee	14,770	10/2035 SIFMA + 1.47%		
Twin Ponds Apartments Arlington, WA	2011	(7)	134	96%	Fee	5,515 1,179	1/2038 SIFMA + 1.53% 6.20%		
Vintage at Vancouver Vancouver, WA	2011	(7)	154	98%	Fee	7,725 539	1/2035 SIFMA + 2.16% 8.12%		
Vista Sonoma Seniors Apts Santa Rosa, CA	2011	(7)	189	98%	Fee	9,778	1/2032 6.562%		
<b>Total - Vintage Properties</b>			<b>4,655</b> <i>units</i>			<b>\$247,465</b>		<b>\$ 3,041</b>	

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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 \$5,369 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) There are no major tenants as the property is currently in development.
- (6) An interest rate cap was purchased that caps LIBOR at 2.5%.
- (7) The Vintage equity investment of \$34,153 represents a 75% interest in Vintage Housing Holdings LLC, an entity which owns the general partnership interests in the properties listed above.
- (8) SIFMA = Securities Industry and Financial Markets Association Municipal Swap Index. The one-month SIFMA rate at November 30, 2013 was 0.05%. Each of the Vintage floating rate debt instruments is subject to an interest rate cap ranging from 5.50% and 8.25%.
- (9) An interest rate swap agreement with a notional amount of \$7,844 effectively converts the interest rate to a fixed rate of 4.76%.
- (10) An interest rate swap agreement with a notional amount of \$7,500 effectively converts the interest rate to a fixed rate of 5.31%.
- (11) An interest rate swap agreement with a notional amount of \$920 effectively converts the interest rate to a fixed rate of 6.86%.
- (12) An interest rate swap agreement with a notional amount of \$14,246 effectively converts the interest rate to a fixed rate of 5.72%.
- (13) The one month LIBOR rate at December 31, 2013 was 0.1677%.

### LEASE EXPIRATIONS

The following table sets forth a schedule of lease expirations at our consolidated and unconsolidated commercial properties respectively, with respect to leases in place at December 31, 2013 for each of the next ten 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, 2013 and does not reflect any straight-line rent adjustments or expense reimbursements. The average annualized revenue per square foot as of December 31, 2013 was \$22.56 for consolidated multi-tenant operating properties and \$9.15 for consolidated single tenant operating properties. Annualized revenue represents contractual base rent for December multiplied by twelve.



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The following tables set forth certain information concerning lease expirations:

Year of Lease Expirations	Number of Expiring Leases	Net Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases (%)	Annual Contractual Rent Under Expiring Leases (\$)	Annual Rent Per Leased Square Foot of Expiring Leases (\$)
<b>Consolidated Multi Tenant Operating Properties:</b>					
2014	29	102,000	8%	\$ 1,635,000	\$ 16.03
2015	23	130,000	11%	2,453,000	18.87
2016	18	67,000	6%	1,272,000	18.99
2017	19	94,000	8%	1,664,000	17.70
2018	26	130,000	11%	2,596,000	19.97
2019	14	211,000	18%	4,904,000	23.24
2020	3	7,000	1%	146,000	20.86
2021	10	87,000	7%	4,554,000	52.34
2022	8	182,000	15%	4,319,000	23.73
2023	4	38,000	3%	996,000	26.21
2024 and Thereafter	11	147,000	12%	2,426,000	16.50
			100%		
<b>Consolidated Single Tenant Operating Properties:</b>					
2014	1	54,000	3%	840,000	15.56
2015	2	608,000	29%	1,045,000	1.72
2016	2	88,000	4%	382,000	4.34
2017	2	303,000	14%	3,822,000	12.61
2018	1	54,000	3%	945,000	17.50
2019	—	—	—	—	—
2020	1	120,000	6%	1,447,000	12.06
2021	—	—	—	—	—
2022	—	—	—	—	—
2023	1	200,000	9%	1,980,000	9.90
2024 and Thereafter	2	666,000	32%	8,684,000	13.04
			100%		
<b>Unconsolidated Operating Properties:</b>					
2014	77	148,000	11%	2,328,000	15.74
2015	66	168,000	12%	3,654,000	21.80
2016	32	97,000	7%	3,634,000	37.56
2017	23	70,000	5%	3,087,000	44.01
2018	26	73,000	5%	2,625,000	35.75
2019	16	342,000	25%	8,060,000	23.59
2020	12	169,000	12%	6,457,000	38.30
2021	4	5,000	—	693,000	126.35
2022	4	135,000	10%	6,230,000	46.18
2023	5	22,000	2%	2,948,000	135.46
2024 and thereafter	23	159,000	11%	4,897,000	30.83
			100%		

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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, 2013.

<u>Tenant</u>	<u>Property</u>	<u>Remaining Lease Term in months</u>	<u>Total Leased Square Feet</u>	<u>Percentage of Aggregate Portfolio Leased Square Feet (%) (1)</u>	<u>Percentage of Aggregate Portfolio Annual Rent (%) (2)</u>
Spectra Energy	Houston, TX	148	614,000	18.5%	12.0%
Football Fanatics, Inc.	Jacksonville, FL	19	561,000	16.9%	1.6%
Siemens Real Estate, Inc.	Orlando, FL	48	257,000	7.8%	7.4%
Ingram Micro, Inc.	Amherst, NY	58	200,000	6.0%	3.9%
The Kroger Company	Various (3)	29	154,000	4.7%	1.5%

(1) Represents percentage of square footage leased excluding month to month leases.

(2) Represents base rent plus straight line rent adjustments.

(3) The Kroger Company is a tenant in three net leased properties located in Georgia, Kentucky and North Carolina. Remaining lease term represents a weighted average based on square footage and percentage of annual rent represents an aggregate of all three 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:

<u>Property Location</u>	<u>Current Term Expiration</u>	<u>Renewal Terms</u>	<u>Lease Term Rents Per Annum</u>
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 \$115,032/month plus increases of 3% per annum each June as well as \$100,000 increases per annum on November 1, 2015 and 2017.

(1) The lease requires the tenant to perform all covenants under the ground lease including the payment of ground rent. All extensions are at our option.

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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, 2013, 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, 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
Year Ended December 31, 2013:		
First Quarter	\$12.80	\$11.04
Second Quarter	13.29	11.40
Third Quarter	13.66	11.07
Fourth Quarter	12.02	10.77

#### Holders

As of December 31, 2013 there were 601 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. We declared dividends of \$0.1625 per Common Share in each quarter for the last two years.

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.

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.

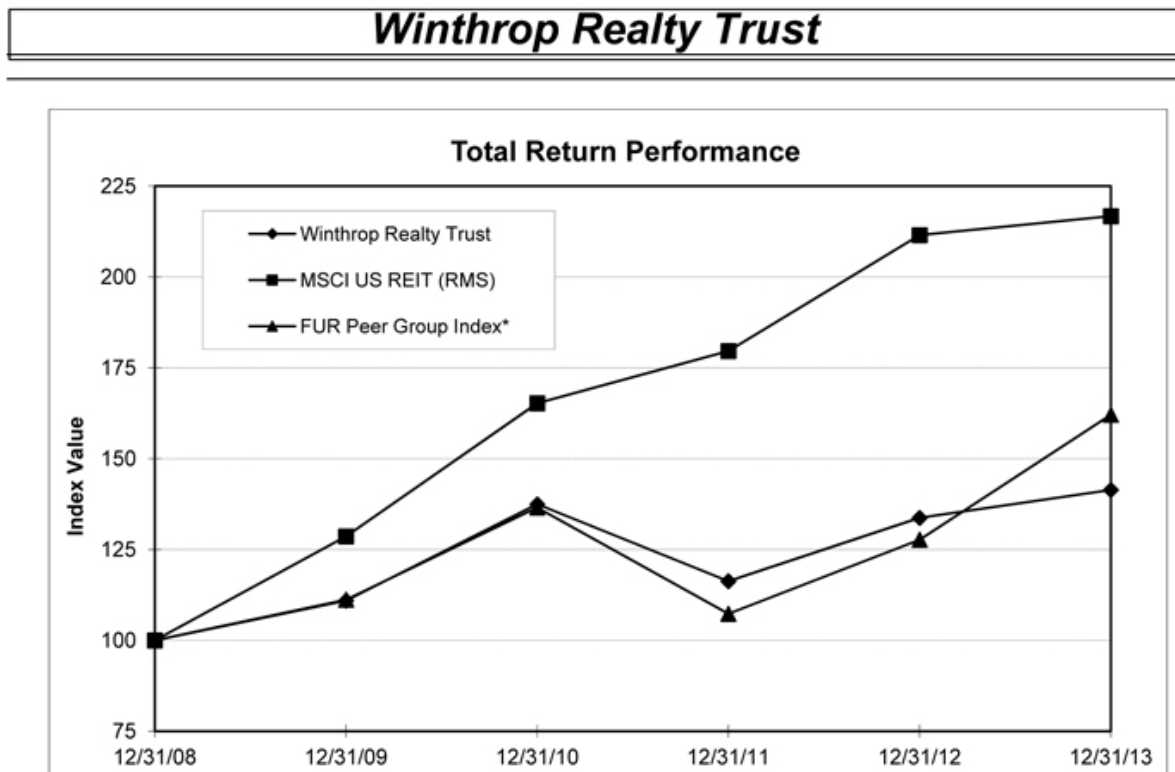
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The following table sets forth the shares repurchased during the fourth quarter of 2012. No additional shares have been repurchased since November 30, 2012.

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 27, 2014 under \$750,000,000. The graph assumes that \$100 was invested on December 31, 2008 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, 2008, the results depicted would not have been the same.



Index	Period Ending					
	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Winthrop Realty Trust	100.00	110.95	137.45	116.26	133.70	141.39
MSCI US REIT (RMS)	100.00	128.61	165.23	179.60	211.50	216.73
FUR Peer Group Index*	100.00	111.18	136.54	107.30	127.69	162.06

\* Peer Group consists of REITs with a diversity and other property focus and have a current market value as of January 27, 2014 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.

Operating Results (in thousands, except per share data)	Years Ended December 31,				
	2013	2012	2011	2010	2009
<b>Revenue</b>	<u>\$ 61,103</u>	<u>\$ 44,213</u>	<u>\$ 35,848</u>	<u>\$ 32,984</u>	<u>\$ 34,410</u>
Income (loss) from continuing operations (1)	\$ 21,111	\$ 24,749	\$ 10,584	\$ 19,452	\$ (86,631)
Income (loss) from discontinued operations (2)	7,667	(118)	349	(2,975)	2,284
Net income (loss) attributable to Winthrop Realty Trust	28,778	24,631	10,933	16,477	(84,347)
Preferred dividends	(11,146)	(9,285)	(924)	(288)	(147)
Amount allocated to Restricted Common Shares	(307)	—	—	—	—
<b>Net income (loss) applicable to Common Shares</b>	<u>\$ 17,325</u>	<u>\$ 15,346</u>	<u>\$ 10,009</u>	<u>\$ 16,189</u>	<u>\$ (84,494)</u>
<b>Per Common Share</b>					
Income (loss) from continuing operations, basic	\$ 0.28	\$ 0.46	\$ 0.31	\$ 0.85	\$ (5.33)
Income (loss) from discontinued operations, basic (2)	0.23	—	0.01	(0.13)	0.14
<b>Net income (loss) applicable to Common Shares, basic</b>	<u>\$ 0.51</u>	<u>\$ 0.46</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ (5.19)</u>
Income (loss) from continuing operations, diluted	\$ 0.28	\$ 0.46	\$ 0.31	\$ 0.85	\$ (5.33)
Income (loss) from discontinued operations, diluted	0.23	—	0.01	(0.13)	0.14
<b>Net income (loss) applicable to Common Shares, diluted</b>	<u>\$ 0.51</u>	<u>\$ 0.46</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ (5.19)</u>
<b>Cash dividends declared per Common Share</b>	<u>\$ 0.65</u>	<u>\$ 0.65</u>	<u>\$ 0.65</u>	<u>\$ 0.65</u>	<u>\$ 0.9125</u>
<b>Balance Sheet Data:</b> (in thousands)					
<b>Total Assets</b>	<u>\$1,132,324</u>	<u>\$923,163</u>	<u>\$733,933</u>	<u>\$610,128</u>	<u>\$493,192</u>
<b>Total Debt</b>	<u>\$ 562,075</u>	<u>\$421,422</u>	<u>\$300,090</u>	<u>\$277,193</u>	<u>\$238,067</u>
<b>Non-Controlling redeemable preferred interest</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,221</u>	<u>\$ 12,169</u>
<b>Series D Cumulative Redeemable Preferred Shares</b>	<u>\$ 120,500</u>	<u>\$120,500</u>	<u>\$ 40,000</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Total Shareholders' Equity</b>	<u>\$ 480,874</u>	<u>\$454,510</u>	<u>\$387,802</u>	<u>\$295,771</u>	<u>\$217,089</u>

(1) Income (loss) from continuing operations, including per share data, are net of non-controlling interests.

(2) The results of the Creekwood apartment property were classified as discontinued operations for 2009. The results of the Athens, Georgia and Sherman, Texas properties were classified as discontinued operations for 2009 and 2010. The results of the Lafayette, Louisiana; Knoxville, Tennessee and St. Louis, Missouri properties were classified as discontinued operations for 2009 through 2011. The results of the Indianapolis, Indiana and Memphis, Tennessee properties were classified as discontinued operations for 2009 through 2012. The results of the Andover, Massachusetts; Denton, Texas; Lisle, Illinois (701 Arboretum) and Seabrook, Texas properties were classified as discontinued operation for 2009 through 2013. The results of the Deer Valley, Arizona and Meriden, Connecticut properties were classified as discontinued operations for 2010 through 2013.

**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 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. We will continue to invest in opportunities which we believe will yield superior risk adjusted returns. These investments have in the past had, and may in the future have returns weighted towards the back end of the invested life which negatively impact current earnings and funds from operations.

In connection with our strategy, in certain instances, we seek to acquire assets through joint ventures 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 of our joint venture partner’s experience and expertise in specific geographic areas and/or specific asset types.

As value investors we focus and aggressively pursue our investment activity in the real estate investment segments 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. While we made significant new investments in 2013, most notably the portfolio acquisition of four luxury residential multifamily high rises and our election to participate in the hotel portion of our 701 Times Square investment, we have observed very competitive pricing for quality real estate resulting from a low interest rate environment and increasing capital seeking real estate and real estate related investments. We expect that during 2014, absent a change in the macroeconomic environment, new opportunities that meet our asset quality and investment return requirements may be limited. Nevertheless, we will continue to seek new investments and we will continue to look to our existing portfolio for follow-on investment opportunities. Consequently, we have evaluated our stabilized assets with a view towards selling those assets to take advantage of rising prices and have begun executing on such sales. In addition, subject only to the disposition restrictions under the Internal Revenue Code in order to maintain our REIT status, we will continue to realize returns on those investments that we believe have matured in value and recycle the proceeds for new investments and/or corporate reserves.

During 2013 we (i) invested \$284,408,000 in new operating property assets and \$51,437,000 in new loan assets. (see Item 8 – Financial Statements and Supplementary Data, Note 4 for a description of our acquisitions), (ii) sold operating properties and loan assets for aggregate proceeds of \$77,953,000; (iii) received \$76,477,000 in loan repayments and returns of our capital investment from our equity investments and (iv) received net proceeds of \$30,021,000 from the issuance of 2,750,000 common shares of beneficial interest which we refer to as our Common Shares.

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We often acquire assets through joint ventures 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 of our joint venture partner's experience and expertise in specific geographic areas and/or specific asset types.

With respect to our operating results for 2013, net income attributable to Common Shares was \$17,325,000 or \$0.51 per Common Share as compared with net income in 2012 of \$15,346,000 or \$0.46 per Common Share. Funds From Operations attributable to Common Shares was \$45,817,000 or \$1.36 per Common Share for 2013 as compared to Funds From Operations of \$46,449,000 or \$1.40 per Common Share in 2012. See "Results of Operations" below.

### **Loan Assets**

During 2013 we (i) received repayment in full on four loans receivable and partial repayment on one loan receivable for a total repayment of \$56,088,000, (ii) had three loans held in equity investments that were fully repaid resulting in return of capital distributions to us totaling \$13,844,000, (iii) sold two loans receivable for net proceeds of \$19,319,000, (iv) sold loan assets held in an equity investment resulting in a return of capital distribution to us of \$774,000, and (v) invested approximately \$51,437,000 in new loan assets consisting of a mezzanine loan and a secured financing receivable. As a result of our loan investments, operating income from loan assets increased by \$2,306,000 to \$35,661,000 for the year ended December 31, 2013 compared to \$33,355,000 for the year ended December 31, 2012. For a description of our loan assets acquired during 2013 see Item 8. Financial Statements, Note 4.

With the exception of our \$1,500,000 mezzanine loan collateralized by a flex warehouse property located in Shirley, New York which was recently vacated by its tenant and is in default, all of our loan assets are performing in accordance with their terms.

When making new loan investments, we 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.

### **Operating Properties**

During 2013 we (i) acquired five new consolidated operating properties, (ii) made an equity investment in one new operating property, (iii) sold five consolidated operating properties and (iv) lost through foreclosure two of our Sealy equity investments, which we carried at \$0. For details of our 2013 operating property transactions see Item 8 – Financial Statements, Note 4.

#### *Consolidated Operating Properties*

During 2013 we have seen 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 2013 and 2012, complemented by our new store property operating results, that is, properties not held during both complete 12 month periods. The full impact of the improvement is not reflected in continuing operations as certain of our properties with improved operating results were sold or are held for sale and are classified as discontinued operations. See our Results of Operations section below for details of our consolidated properties net income. As of December 31, 2013 our consolidated properties were approximately 90.0% leased compared to approximately 89.9% leased at December 31, 2012.

*Tenant Concentration* – At December 31, 2013, we had two tenants, Spectra Energy and Siemens Real Estate, which represented approximately 12.1% and 7.4%, respectively, of our annualized base rental revenues from consolidated commercial operating properties and 7.0% and 4.3%, respectively, of total revenue.

*1515 Market Street* – On February 1, 2013 we entered into a loan modification agreement which extended the maturity date to February 1, 2016, increased the loan balance to \$71,629,000, from \$70,000,000, and changed the interest rate to be the greater of 7.5% or LIBOR plus 6.5%.

Simultaneously with the modification of the loan, we acquired, for \$10,000, an indirect 49% equity interest, including the 0.1% general partner interest, in the entity ("1515 Market Owner") that owns the property located at 1515 Market Street, Philadelphia, Pennsylvania. We have consolidated this property as of February 1, 2013. For segment reporting purposes, this property will be classified within the operating properties segment as of February 1, 2013. Prior to consolidation, this investment was part of the loan assets segment.



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On April 25, 2013 1515 Market Owner obtained a \$43,000,000 non-recourse first mortgage loan (the “1515 First Mortgage”) from an unaffiliated third party. The 1515 First Mortgage bears interest at LIBOR plus 2.0% per annum, requires monthly payments of interest only and matures on May 1, 2016. On the same date, the 1515 Market Owner entered into an interest rate swap agreement which effectively fixes LIBOR at 0.50% for the term of the 1515 First Mortgage. We received \$38,472,000 of loan proceeds from the 1515 First Mortgage financing which reduced the balance on the mortgage loan we hold to \$33,157,000. The loan balance can be increased through future funding advances up to an aggregate of \$6,000,000 to cover tenant improvements, capital expenditures and leasing commissions. For each \$500,000 of future advances, the interest rate increases by 0.10%. At December 31, 2013 we had advanced an additional \$1,500,000 resulting in a 0.3% increase in the interest rate. The loan modification also provides the lender with a 40% participation interest in the case of a capital event. At December 31, 2013 the loan we hold had a balance of \$36,171,000, inclusive of accrued interest, and entitles us to interest in an amount equal to a rate of 14.3% (subject to increase by 0.10% for each additional \$500,000 we advance). At December 31, 2013 our investment in this loan was \$21,098,000 resulting in an effective interest rate on our cash investment in this asset of 19.6%.

**Summit Pointe Apartments** – On October 25, 2013 we contributed \$4,962,000 for an 80% equity interest in a newly formed venture. On the same date, the venture acquired a 184 unit garden apartment complex known as Summit Pointe Apartments located in Oklahoma City, Oklahoma for a gross purchase price of \$14,500,000. In connection with the acquisition, the venture assumed an existing \$9,248,000 first mortgage loan. The loan bears interest at a rate of 5.7% per annum, requires monthly payments of principal and interest and matures in February 2021. Pursuant to the terms of the venture agreement, we hold an equity interest which entitles us to an 8% priority return from cash flow and, upon disposition of the property, a minimum priority return equal to a 12% internal rate of return (“IRR”).

**Luxury Residential** – On October 31, 2013 we acquired through a wholly owned venture four newly constructed luxury apartment buildings for an aggregate purchase price of \$246,000,000. The properties are located in Phoenix, Arizona; Stamford, Connecticut; Houston, Texas and San Pedro, California. The properties consist of an aggregate of 761 unsold residential condominium or apartment units and approximately 25,000 square feet of retail space. The acquisition was funded with a \$150,000,000 first mortgage loan which is cross collateralized by all four properties. The loan bears interest at a rate of LIBOR plus 2%, requires monthly payments of interest only and matures on October 31, 2016 with two one year extension options. The balance of the purchase was funded from cash on hand. On the same date, the venture entered into an interest rate swap agreement which effectively fixes LIBOR at 0.69% for the initial term of the first mortgage. In addition, the venture acquired two interest rate caps, each with a notional amount of \$50,000,000 for an aggregate cost of \$390,000. The initial cap is effective for the first one year extension period and caps LIBOR at 4%. The second cap is effective for the second one year extension period and caps LIBOR at 5%.

On November 6, 2013 New Valley LLC (“New Valley”) contributed approximately \$16,365,000 to the entity that acquired the properties in exchange for an indirect 16.3% interest in the properties. We retained an 83.7% interest in the venture and have the right to make all decisions with respect to each of the properties, other than the Stamford, Connecticut property, subject to obtaining New Valley’s consent to certain major decisions. With respect to the Stamford, Connecticut property, prior to November 6, 2016 the consent of New Valley is required on all matters other than those that are administrative in nature. New Valley has the right at any time after November 6, 2015 (or in certain instances prior thereto), but on or prior to November 6, 2016, to have its interest in the venture redeemed for a 50% interest in the Stamford, Connecticut property.

### Leasing

**Amherst, New York** – On July 29, 2013 we executed a lease amendment with the existing tenant, Ingram Micro Inc., which leases the entire 200,000 square foot premises. The initial lease was signed in 1988 and was scheduled to expire October 31, 2013 (subject to two five-year extensions). The new lease extends the term through October 31, 2023 with one ten-year or two five-year renewal options. Lease payments under the amendment remained unchanged through the expiration of the original lease. Annual rents under the original lease were \$2,016,000. Annual rents under the amended lease are \$1,802,000 for the period November 1, 2013 through October 31, 2018 and \$2,002,000 for the period November 1, 2018 through October 31, 2023. The base rent is subject to increase upon the delivery of additional parking area to the tenant, which is expected to be completed during the second quarter of 2014.

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### Sales

**Andover, Massachusetts** – On March 28, 2013 we sold our Andover, Massachusetts office property to an independent third party for gross sale proceeds of \$12,000,000. After costs and pro-rations, we received net proceeds of approximately \$11,425,000 and recorded a gain of \$2,775,000 on the sale of the property. The results of operations have been classified as discontinued operations for all periods presented in the consolidated interim financial statements.

**Deer Valley, Arizona** – On June 11, 2013 we sold our Deer Valley, Arizona office property to an independent third party for gross sale proceeds of \$20,500,000. After costs and pro-rations, we received net proceeds of approximately \$19,585,000 and recorded a gain of \$6,745,000 on the sale of the property. The results of operations have been classified as discontinued operations for all periods presented in the consolidated interim financial statements.

**Denton, Texas** – On July 2, 2013 we sold our Denton, Texas property to an independent third party for gross sale proceeds of \$1,850,000. After costs and pro-rations, we received net proceeds of approximately \$1,703,000. No gain or loss was recorded on the sale of the property. The results of operations have been classified as discontinued operations for all periods presented in the consolidated interim financial statements.

**Seabrook, Texas** – On August 1, 2013 we sold our Seabrook, Texas property to an independent third party for gross sale proceeds of \$3,300,000. After costs and pro-rations, we received net proceeds of approximately \$3,202,000 and recorded a gain of \$1,428,000 on the sale of the property. The results of operations have been classified as discontinued operations for all periods presented in the consolidated interim financial statements.

**Lisle, Illinois** – On December 17, 2013 we sold our Lisle, Illinois office property known as 701 Arboretum to an independent third party for gross sale proceeds of \$2,500,000. After costs and pro-rations we received net proceeds of approximately \$2,351,000 and recorded a gain of \$58,000 on the sale of the property. The results of operations have been classified as discontinued operations for all periods presented in the consolidated interim financial statements.

**Meriden, Connecticut** – On February 26, 2014 we sold our Meriden, Connecticut property to an independent third party for gross sale proceeds of \$27,500,000. After costs and pro-rations and a transfer of the mortgage debt, we received net proceeds of approximately \$5,106,000 on the sale of the property. This property was under contract to be sold with a \$500,000 non-refundable deposit as of December 31, 2013. This property was classified as held for sale as of December 31, 2013 and the results of operations have been classified as discontinued operations for all periods presented in the consolidated interim financial statements.

### Equity Investments

**Vintage Housing** - During the years ended December 31, 2013 and 2012, we recorded net income from our investment in Vintage Housing of \$9,174,000 and \$4,603,000, respectively, and received cash distributions of \$5,555,000 and \$6,023,000, respectively. The Vintage properties were 97% occupied at November 30, 2013. We have elected to recognize our earnings on a one month lag.

**WRT-Elad Lender/Equity – Sullivan Center** - On August 21, 2013 we acquired from an affiliate of Elad Canada Inc. (“Elad”), our joint venture partner, its 50% joint venture interest (the “Elad Interest”) in WRT-Elad One South State (“Lender LP”) for \$30,000,000 (“Acquisition Price”). The mezzanine loan had an outstanding balance of principal and accrued interest of approximately \$56,150,000 at the time the Elad Interest was acquired. Concurrently with the acquisition of the Elad Interest, we entered into an option agreement (the “Elad Option”) which grants Elad the option, but not the obligation, to repurchase its interest in Lender LP for the Acquisition Price adjusted for the pro-rata portion of any accrued and unpaid interest and principal payments made by the borrower. Per the terms of the agreements, the Elad Interest and Elad Option cannot be transferred to parties other than us and Elad. The term of the Elad Option corresponds with Lender LP’s mezzanine loan.

On October 18, 2013, the owner of the Sullivan Center property obtained a new \$113,500,000 first mortgage loan. The loan bears interest at a rate of 3.95% per annum, requires monthly payments of interest only and matures on November 6, 2018. The proceeds from the loan were used to repay the existing \$110,550,000 first mortgage loan which bore interest at a rate of 11.0% per annum. The new loan eliminates the requirement for the cash trap with the lender and the property owner recommenced making payments on the mezzanine loan on November 9, 2013 in accordance with the terms of the forbearance agreement.

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In February 2013, our joint venture which holds an indirect future interest in Sullivan Center increased its future ownership interest from 65% to 70%, which interest was further increased to 76% in November 2013. The increases were in exchange for a forbearance by Lender LP with respect to the failure by the borrower to make required debt service payments from January 2013 through October 2013.

During the years ended December 31, 2013 and 2012, we recorded net income on our equity investments in Sullivan Center of \$1,315,000 and \$903,000, respectively, and received cash distributions of \$5,116,000 and \$0, respectively. The Sullivan Center was 83% leased at November 30, 2013. We have elected to recognize our earnings on a one month lag.

**701 Seventh Avenue, New York, New York** – During 2013, with respect to the joint venture that indirectly owns the property located at 701 Seventh Avenue, New York, New York we elected to participate in the future hotel development and during 2013, we made additional cash contributions to the venture totaling \$24,465,000. We have contributed an additional \$33,419,000 in 2014 bringing our total capital contributed at such date to \$86,855,000 against our \$125,000,000 commitment. The contribution was made concurrently with the refinancing of the property's existing indebtedness with a new \$237,500,000 mortgage loan and \$315,000,000 mezzanine loan of which \$346,500,000 was advanced at closing with the balance to be advanced for constructions costs of the approximately 80,000 square feet of retail space which will include an approximately 120 foot high, 20,000 square foot state of the art LED sign. Both the mortgage loan and mezzanine loan bear interest at LIBOR plus 8% per annum, require payments of interest only and mature January 31, 2017, subject to two-one year extension terms. These loans refinanced the then existing mortgage and mezzanine loans that bore interest at LIBOR plus 11% per annum.

In addition, the venture also entered into two additional loan agreements providing for supplemental loans totalling \$262,500,000, which agreements are held in escrow and only become effective upon the satisfaction of certain conditions. At such time as such loan agreements are released from escrow, if at all, the venture will be permitted to draw on such loans to provide additional construction financing in order to develop a 452 room hotel which will be constructed above the retail component. If fully funded, the maximum aggregate debt among the various loans funded would be \$815,000,000.

During the years ended December 31, 2013 and 2012, we recorded net income from our investment in 701 Seventh Avenue of \$3,424,000 and \$0, respectively and received cash distributions of \$2,813,000 and \$290,000, respectively. We have elected to recognize our earnings on a three month lag.

**Atrium Mall LLC** - On June 20, 2013 we, through a newly formed 50-50 joint venture with Marc Realty, acquired a non-performing \$10,650,000 mortgage loan for \$6,625,000. In addition, the joint venture paid \$1,137,000 to fund escrows at the closing. We invested a total of \$3,935,000 in this joint venture during 2013. The loan was in maturity default at the time of acquisition and was acquired with the intention of foreclosing or working out a consensual assignment with the borrower. The loan was collateralized by a leasehold interest in the Atrium Mall in Chicago, Illinois. The leasehold interest is for 71,000 square feet of commercial/retail space that comprises the bottom three floors of an office building known as the James R. Thompson building of which the lease expires in September 2014 with six automatic five-year extensions which are exercisable at the lessee's option. The building is owned by the State of Illinois.

On July 26, 2013 the joint venture entered into an agreement with the borrower pursuant to which the borrower conveyed the leasehold interest to the venture in lieu of foreclosure. Accordingly, the venture now holds the leasehold interest in the property.

**WRT-Fenway Wateridge** – On October 15, 2013, our venture that holds this property obtained a \$7,000,000 first mortgage loan on its San Diego, California property. The loan bears interest at the greater of 6%, or LIBOR plus 4.5% per annum, requires monthly payments of interest only and matures on November 1, 2016. The venture purchased an interest rate cap which caps LIBOR at 2.5%. In connection with the financing, we received a distribution of \$6,255,000 in partial redemption of our preferred equity investment. Subsequent to the distribution, our preferred equity balance is \$229,000. We retain the balance of our preferred equity interest as well as a 50% equity interest in the venture.

**Sealy Airpark – Nashville, Tennessee** – On October 7, 2013 the lender foreclosed on the loan that was collateralized by this property. We held our interest in this property through a venture that was managed by our partner and had previously written down our investment to zero. Accordingly, for financial reporting purposes we did not recognize a gain or loss in connection with the foreclosure.

**Sealy Newmarket – Atlanta, Georgia** - On December 2, 2013 the lender foreclosed on the loan that was collateralized by this property. We held our interest in this property through a venture that was managed by our partner and had previously written down our investment to zero. Accordingly, for financial reporting purposes we did not recognize a gain or loss in connection with the foreclosure.

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**Marc Realty** - In February 2014 we entered into a letter agreement with Marc Realty to sell our interest in the three suburban Chicago, Illinois properties and our interest in the River City, Chicago, Illinois consolidated property for a gross sales price of \$6,000,000. The sale of these assets occurred on March 5, 2014. See Results of Operations for additional discussion on the other-than-temporary impairment charges totaling \$6,235,000 on our investments in the three suburban properties at December 31, 2013. These impairment charges are reflected in equity in earnings for the year ended December 31, 2013. See Results of Operations for additional discussion on these impairments.

We also granted to Marc Realty an option exercisable within two years to acquire our interest in the property located at 223 W. Jackson, Chicago, Illinois for a purchase price, depending on adjustments and timing, expected to be not less than \$5,800,000. See Results of Operations for additional discussion on the other-than-temporary impairment charge of \$1,452,000 at December 31, 2013 on our equity investment in this property. This impairment charge is reflected in equity in earnings for the year ended December 31, 2013.

### **REIT Securities**

During 2013 we liquidated all of our holdings of REIT securities. In particular, we sold 3,000,716 shares of common stock in Cedar Realty Trust, Inc. ("Cedar") which we had acquired for an aggregate cost of \$12,891,000 for aggregate sales proceeds of \$16,292,000. We also sold 1,250,000 shares of MPG Office Trust Inc. which we had acquired for an aggregate cost of \$2,984,000 for aggregate sale proceeds of \$3,626,000.

### **Liquidity and Capital Resources**

At December 31, 2013, we held \$112,512,000 in unrestricted cash and cash equivalents.

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 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;
- asset specific borrowings; and
- the issuance of equity and debt securities.

### *Public Offerings*

On September 30, 2013 we closed a public offering of 2,750,000 Common Shares at a price of \$11.45 per share before underwriters discount. We received net proceeds of approximately \$30,021,000 after underwriters discount and expenses.

### *Debt Maturities*

At December 31, 2013, we had consolidated mortgage loans payable of \$444,933,000. We have \$18,877,000 of mortgage debt maturing in 2014, \$8,579,000 maturing in 2015 and \$326,182,000 maturing in 2016 with the remainder maturing in 2017 or later. With respect to our two mortgage loans maturing in 2014, we anticipate exercising our one year extension options which are available on each loan. Our \$50,000,000 revolving line of credit had no amounts outstanding at December 31, 2013

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and matures in March 2014. We elected not to exercise our one remaining one-year renewal option. We continually evaluate our debt maturities and 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, 2012, 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 to offset 2013 taxable income. 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 \$31,697,000 at December 31, 2012 which expire from 2014 through 2015. We anticipate utilizing \$15,697,000 of the capital loss carry forward to offset 2013 capital gains.

### Cash Flows

Our liquidity based upon cash and cash equivalents increased by approximately \$14,830,000 from \$97,682,000 at December 31, 2012 to \$112,512,000 at December 31, 2013.

Our cash flow activities for the year ended December 31, 2013 are summarized as follows (in thousands):

Net cash flow provided by operating activities	\$ 30,268
Net cash flow used in investing activities	(182,278)
Net cash flow provided by financing activities	166,840
Increase in cash and cash equivalents	<u>\$ 14,830</u>

### Operating Activities

For the year ended December 31, 2013, our operating activities generated net income of \$24,488,000 and positive cash flow of \$30,268,000. Our cash provided by operations reflects our net income adjusted by: (i) a decrease for non-cash items of \$10,337,000 representing primarily equity earnings from non-consolidated interests, current period loan discount accretion and realized gains on the sale of real estate investments offset by adding back depreciation and amortization expenses and \$10,591,000 for impairment charges; (ii) an increase of \$37,000 for discount accretion received in cash; (iii) an increase for \$24,719,000 of distributions from non-consolidated interests; and (iv) a net decrease due to changes in other operating assets and liabilities of \$8,639,000. 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, 2013 was approximately \$182,278,000 as compared to cash flows used in investing activities of approximately \$109,447,000 for the comparable period in 2012. Cash is used in investing activities primarily to fund acquisitions, loan originations and net investments in unconsolidated joint ventures. Investing activity for 2013 consisted primarily of the acquisition of five residential properties, a new loan origination, the acquisition of a commercial property through a newly formed unconsolidated joint venture and follow on investments in existing joint ventures. These investments were offset by proceeds received from the sale of five properties, two loans receivable and all of our REIT securities holdings as well as distributions from our unconsolidated joint ventures.

Net cash used in investing activities of \$182,278,000 for the year ended December 31, 2013 was comprised primarily of the following:

- \$245,931,000 for the acquisition of four luxury apartment buildings which were acquired on October 31, 2013;
- \$30,000,000 for the secured financing transaction related to the purchase of Elad's 50% interest in Lender LP;
- \$25,913,000 for investment in our 701 Seventh Avenue venture;
- \$20,569,000 for our mezzanine loan origination indirectly secured by a property in Playa Vista, California;
- \$5,867,000 for the acquisition of our Oklahoma City, Oklahoma residential property;
- \$5,344,000 for investment in capital and tenant improvements at our operating properties;
- \$3,935,000 for investment in our new Atrium Mall joint venture; and
- \$868,000 of advances made on our 1515 Market Street loan receivable prior to our consolidating this property.

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These uses of cash flow were offset primarily by:

- \$56,088,000 in collection of loans receivable;
- \$19,918,000 in proceeds from the sale of securities carried at fair value;
- \$19,774,000 in proceeds from the sale of our Deer Valley, Arizona office property;
- \$19,319,000 in proceeds from the sale of two loans receivable;
- \$11,538,000 in proceeds from the sale of our Andover, Massachusetts office property;
- \$10,834,000 in return of capital distributions from our 10 Metrotech venture;
- \$5,771,000 in return of capital distributions from our WRT-Fenway Wateridge joint venture;
- \$4,905,000 in proceeds from the sale of two net lease retail properties;
- \$3,009,000 in return of capital distributions from our Concord joint ventures;
- \$2,473,000 in proceeds from the sale of our Lisle, Illinois property known as 701 Arboretum; and
- \$774,000 in return of capital distributions from our RE CDO Management joint venture.

### *Financing Activities*

Cash flow provided by financing activities for the year ended December 31, 2013 was approximately \$166,840,000 as compared to cash flow provided by financing activities of approximately \$119,742,000 for the comparable period in 2012. This change of approximately \$47,098,000 resulted primarily from proceeds from new mortgage loans payable and proceeds from the issuance of our Common Shares.

Net cash provided by financing activities of \$166,840,000 for the year ended December 31, 2013 was comprised primarily of the following:

- \$150,000,000 in proceeds from a new mortgage loan on our four luxury residential properties;
- \$43,000,000 in proceeds from a new mortgage loan on our 1515 Market Street office property;
- \$30,021,000 in proceeds from the issuance of Common Shares;
- \$16,365,000 in contributions from non-controlling interests at our four luxury residential properties;
- \$5,100,000 in proceeds from a new mortgage loan on our Churchill, Pennsylvania property;
- \$1,342,000 in contributions from non-controlling interests at our Summit Pointe Apartments, Oklahoma property; and
- \$922,000 in contributions from non-controlling interests at our 450 W 14<sup>th</sup> Street property.

These sources of cash flow were offset primarily by:

- \$23,770,000 for payments on our recourse secured financing;
- \$22,287,000 for principal payments on our mortgage loans payable;
- \$21,919,000 for dividend payments on our Common Shares;
- \$11,146,000 for dividend payments on our Series D Preferred Shares;
- \$796,000 for deferred financing costs; and
- \$150,000 for the acquisition of non-controlling interests on our 5400 Westheimer Houston, Texas property.

### *Future Cash Commitments*

#### Future Funding Requirements

We have future funding requirements relating to our 450 W 14<sup>th</sup> Street property, our 701 Seventh Avenue investment and our 1515 Market Street loan which total approximately \$71,092,000 at December 31, 2013. In January 2014 we increased our funding commitment to our 701 Seventh Avenue investment by \$5,000,000 and to date in 2014 we made additional contributions of \$33,419,000 to our 701 Seventh Avenue investment reducing our overall future funding commitment for these investments to \$42,673,000.

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### 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.

During 2013 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, 2013 (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)	\$513,711	\$45,646	\$350,973	\$ 80,141	\$ 36,951
Senior notes payable (principal and interest)	143,903	6,684	13,369	13,369	110,481
Secured financings	29,885	14,735	15,150	—	—
Revolving line of credit (principal and interest) (1)	—	—	—	—	—
Ground lease obligations (2)	115,534	1,405	3,055	3,447	107,627
Advisors' fee (3)	37,156	9,289	18,578	9,289	—
	<u>\$840,189</u>	<u>\$77,759</u>	<u>\$401,125</u>	<u>\$106,246</u>	<u>\$255,059</u>

(1) Does not reflect financing activity subsequent to December 31, 2013.

(2) This obligation relates to the ground lease at our property located at 450 West 14<sup>th</sup> 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, 2014, with no effect given to any equity that may be issued or repurchased after December 31, 2013. 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.



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### 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 2013, property impairments recognized in 2012, the addition of five operating properties in 2013 and three operating properties in 2012, the acquisition of several loan assets in 2012, the divestiture of our REIT securities in 2013 and 2012, the sale of five consolidated operating properties in 2013 and the sale of several of our Marc Realty equity investments in 2012.

### 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

Non-segment specific results which include 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 summarizes our assets by segment at year end (in thousands):

	2013	2012
Operating properties	\$ 845,698	\$562,822
Loan assets	147,702	239,534
REIT securities	—	19,694
Corporate		
Cash and cash equivalents	112,512	97,682
Restricted cash	186	—
Accounts receivable and prepaids	543	336
Deferred financing costs	2,645	3,095
Discontinued Operations	23,038	—
Total Assets	<u>\$1,132,324</u>	<u>\$923,163</u>

Our increase in operating property assets is due to our acquisition of four luxury residential properties (\$248,648,000), and our Summit Pointe Apartments Oklahoma City, Oklahoma residential property (\$15,261,000), and the conversion of our 1515 Market Street property from a loan asset to an operating property (\$67,405,000) as a result of our acquisition of a 49% equity interest, inclusive of the general partner interest, in the property. These increases were partially offset from the sale of five operating properties in 2013 (\$31,605,000).

The decrease in loan assets was due primarily to the conversion of our 1515 Market Street property to an operating property, collections on our Queensridge loan receivable, the sale of our Disney B Note at par, the payoffs at par of three loans receivable, and the payoff of our Metrotech loan equity investment offset by the acquisition of our venture partner's interest in the Sullivan Center mezzanine loan and the origination of our loan receivable indirectly secured by a property in Playa Vista, California.

The decrease in REIT securities assets was the result of the sale of all of our holdings of REIT securities.



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

	2013	2012	2011
Operating properties	\$ 5,708	\$ 219	\$(14,736)
Loan assets	33,369	31,740	35,295
REIT securities	600	8,011	3,895
Corporate expenses	(22,856)	(15,468)	(13,056)
Consolidated income from continuing operations	<u>\$ 16,821</u>	<u>\$ 24,502</u>	<u>\$ 11,398</u>

## Comparison 2013 to 2012

### Operating Properties

The following table summarizes our results from continuing operations for our operating properties segment for the years ended December 31, 2013 and 2012 (in thousands):

	2013	2012
Rents and reimbursements	\$ 61,103	\$ 44,213
Operating expenses	(20,724)	(13,614)
Real estate taxes	(5,876)	(3,672)
Equity in income (loss) of Marc Realty investments	(284)	33
Equity in income of 701 Seventh Avenue	3,424	—
Equity in income of WRT-Fenway Wateridge	796	—
Equity in loss of Atrium Mall	(90)	—
Equity in loss of Sealy Northwest Atlanta	(469)	(388)
Equity in income of Vintage Housing	9,174	4,603
Equity in income of WRT-Elad	1,315	903
Equity in income of Mentor	84	46
Equity in loss of Sealy Newmarket	—	(2,811)
Equity in income of F-II Co-invest	—	232
Operating properties operating income	<u>48,453</u>	<u>29,545</u>
Depreciation and amortization expense	(20,443)	(15,119)
Interest expense	(14,204)	(12,348)
Impairment loss on investments in real estate	—	(1,738)
Impairment loss on Marc Realty equity investment	(7,687)	—
Settlement expense	(411)	—
Gain (loss) on extinguishment of debt	—	(121)
Operating properties net income	<u>\$ 5,708</u>	<u>\$ 219</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, interest expense and other non-recurring non-operating items, and including our share of income or loss from equity investments, increased by \$18,908,000 compared to the prior year period.

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The following table sets forth 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,	
	2013	2012
Rents and reimbursements		
Same store properties	\$ 38,872	\$ 41,004
New store properties	22,231	3,209
	<u>61,103</u>	<u>44,213</u>
Operating expenses		
Same store properties	10,976	12,258
New store properties	9,748	1,356
	<u>20,724</u>	<u>13,614</u>
Real estate taxes		
Same store properties	2,968	3,277
New store properties	2,908	395
	<u>5,876</u>	<u>3,672</u>
Consolidated operating properties operating income		
Same store properties	24,928	25,469
New store properties	9,575	1,458
	<u>\$ 34,503</u>	<u>\$ 26,927</u>

The decrease in operating income for our same store properties was primarily the result of a decrease in revenues of \$2,132,000 which was partially offset by a decrease in operating expenses of \$1,282,000 and a decrease in real estate taxes of \$309,000. The same store results were supplemented by positive results from our new store properties.

- Rental revenues increased by \$16,890,000 due to an increase in new store revenues of \$19,022,000, while there was a decrease in same store revenues of \$2,132,000. The decrease in same store revenue was the result of:
  - A decrease in average occupancy at our Chicago, Illinois property known as River City from 63% to 49% primarily due to the loss of a 55,000 square foot tenant in August 2012. The space previously occupied by this tenant remained vacant at December 31, 2013.
  - 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;
  - The sale of a portion of our Churchill, Pennsylvania property which occurred May 14, 2012;
  - An amendment to the lease terms for Ingram Micro Inc. at our Amherst, New York property. The modified lease reduces the average annual contractual obligation but extends the term of the lease through October 31, 2023.

Which were partially offset by increases from:

- Increased average occupancy at our property known as 450 W 14<sup>th</sup> Street located in New York, New York from 82% to 83%;
- Increased average occupancy at our property known as Crossroads II located in Englewood, Colorado from 82% to 88%;
- Increased average occupancy at our property known as Crossroads I located in Englewood, Colorado from 65% to 80%.

New store revenues for the year ended December 31, 2013 were as follows:

- \$9,484,000 from our 1515 Market St office property in Philadelphia, Pennsylvania which is consolidated as of February 1, 2013;
- \$3,873,000 from our four luxury residential properties acquired on October 31, 2013;

- \$3,430,000 from our Waterford Apartments property in Memphis, Tennessee which was acquired April 17, 2012;
- \$2,756,000 from our office property in Cerritos, California which was acquired October 4, 2012;
- \$2,353,000 from our Lake Brandt Apartments property in Greensboro, North Carolina which was acquired November 2, 2012; and
- \$335,000 from our Summit Pointe Apartments property in Oklahoma City, Oklahoma which was acquired October 24, 2013.

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Operating expenses increased by \$7,110,000 due to an increase in expenses at our new store properties of \$8,392,000. Same store operating expenses decreased by \$1,282,000 due primarily to a decrease in expenses of \$1,277,000 at our Churchill, Pennsylvania property as a result of the partial sale of the property and the new net lease with Westinghouse.

Real estate tax expense increased by \$2,204,000. Real estate tax of \$2,908,000 at our new store properties was offset by a decrease of \$309,000 at our same store properties. The reduction at our same store properties was a result of the following:

- A decrease of \$187,000 at our Crossroads I property due primarily to a prior year tax abatement approved and received in 2013;
- A decrease of \$175,000 at our Crossroads II property due primarily to a prior year tax abatement approved and received in 2013;
- A decrease of \$112,000 at our Churchill, Pennsylvania property as a result of a prior year tax abatement approved and received in 2013.

These decreases were partially offset by an increase in real estate tax of \$238,000 at our Chicago, Illinois (River City) property.

Depreciation and amortization expense increased by \$5,324,000 in 2013 primarily as a result of our new store properties. Interest expenses related to our operating properties increased by \$1,856,000 primarily as a result of financing at our new store properties in Memphis, Tennessee; Greensboro, North Carolina and Cerritos, California which were all acquired in 2012 and at our new store properties in Philadelphia, Pennsylvania; Oklahoma City, Oklahoma; Houston, Texas; Stamford, Connecticut; Phoenix, Arizona and San Pedro, California which were acquired in 2013.

During 2012 we recognized impairment charges of \$1,738,000 on our Atlanta, Georgia Kroger property and \$824,000 on our Denton, Texas Kroger property as a result of changes to the respective holding periods for these properties.

### Non-Consolidated Operating Properties: Equity Investments

Net operating income from equity investments was \$13,950,000 for the year ended December 31, 2013 compared to net income of \$2,618,000 for the year ended December 31, 2012. The increase was due primarily to:

- Operating income from our Vintage portfolio increased by \$4,571,000 primarily due to a decrease in amortization of lease intangibles;
- Operating income from our 701 Seventh Avenue investment, which closed October 16, 2012, was \$3,424,000;
- Operating loss from our Sealy Newmarket investment decreased by \$2,811,000 as a result of having recognized losses in 2012, which brought our investment balance to zero at December 31, 2012 and the suspension of recognition of additional losses in 2013;
- Operating income from our combined WRT-Elad investment which closed February 3, 2012 increased by \$412,000; and
- Operating income from our WRT-Fenway Wateridge investment, which closed December 21, 2012, was \$796,000.

During the fourth quarter of 2013, our equity investments in the Brooks Building, LLC ("223 West Jackson"), High Point Plaza, LLC ("High Point"), 1701 Woodfield, LLC ("1701 Woodfield"), and Enterprise Center, LLC (individually "Enterprise" and the aforementioned investments collectively the "Marc Investments") suffered declines in occupancy, increasing competition for tenants, and increasing costs to operate the investments. Additionally, recent discussions related to marketing available space to potential tenants, along with lease renewals with existing tenants, indicated a capital infusion from us would be necessary to upgrade the investments to achieve rental rates in line with the suburban Chicago, Illinois office market. The factors above along with increasing capital demands and rising cost of capital caused us to reassess our business plan associated with the Marc Investments in the fourth quarter of 2013.

Subsequent to year end we entered into an agreement with Marc Realty, our joint venture partner in these equity investments, to sell our interests in High Point, 1701 Woodfield and Enterprise Center along with our controlling interest in the River City property, located in Chicago, Illinois, which is consolidated, for a gross sales price of \$6,000,000. Additionally, we granted Marc Realty an option exercisable within two years to acquire our interest in 223 West Jackson for a purchase price ranging from \$5,000,000 to \$6,600,000. The purchase price for 223 West Jackson is dependent upon when the option is exercised and certain operating characteristics of the investment at the time of exercise.

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Based on the factors noted above, we concluded that each of the Marc Investments were other-than-temporarily impaired in the aggregate by \$7,687,000 at December 31, 2013 and a corresponding impairment charge has been included in equity in income (loss) of equity investments for the year then ended.

### Loan Assets

The following table summarizes our results from our loan assets segment for the years ended December 31, 2013 and 2012 (in thousands):

	2013	2012
Interest	\$14,334	\$11,736
Discount accretion	4,121	8,333
Earnings of Concord Debt Holdings	3,072	422
Earnings of CDH CDO	1,033	1,715
Equity in earnings of ROIC-Riverside	—	706
Realized gain on sale of loan securities carried at fair value	—	614
Unrealized gain on loan securities carried at fair value	215	447
Equity in loss of ROIC Lakeside Eagle	(25)	(42)
Equity in earnings of RE CDO Management	3,709	67
Equity in earnings (loss) of SoCal Office Loan Portfolio	(2)	9,706
Equity in earnings (loss) of Concord Debt Holdings (1)	64	(456)
Equity in earnings (loss) of CDH CDO (1)	4,926	(997)
Equity in earnings of WRT-Stamford	930	769
Equity in earnings of 10 Metrotech	3,284	335
Loan assets operating income	35,661	33,355
Interest expense	(1,898)	(1,494)
Provision for loss on loans receivable	(348)	—
General and administrative expense	(46)	(121)
Loan assets net income	<u>\$33,369</u>	<u>\$31,740</u>

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

Operating income from loan assets, which we define as all items of income and expense directly derived from or incurred by this segment before general and administrative and interest expense and other non-recurring non-operating items, increased by \$2,306,000 as compared to the prior year period. The increase was due primarily to:

- a \$8,411,000 increase in net earnings from our Concord equity investments resulting from the payoffs of two of the underlying loan assets during the third quarter of 2013;
- a \$3,642,000 increase in net earnings from our RE CDO Management equity investment which resulted from the sale of subordinated interests in collateralized debt obligation entities held by this venture;
- a \$2,949,000 increase in net earnings from our 10 Metrotech equity investment as a result of the underlying loan asset being paid off at par in July 2013; and
- a \$2,598,000 increase in interest income as a result of our 2012 and 2013 origination and acquisition activity, primarily our Queensridge Tower loan which generated \$2,200,000 of interest income during the year ended December 31, 2013.

Partially offset by:

- a \$9,708,000 decrease in earnings from our SoCal Office Portfolio Loan investment as a result of the payoff of the underlying loan asset at par in September 2012; and
- a \$4,212,000 decrease in discount accretion due primarily to the payoff at par in May 2012 of our 160 Spear and Magazine loans which had been acquired at a discount.

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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 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, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Dividends	\$ —	\$1,054
Gain on sale of securities carried at fair value	742	41
Unrealized gain on securities carried at fair value	(142)	6,916
REIT securities operating income	<u>\$ 600</u>	<u>\$8,011</u>

Operating income from REIT securities, which we define as all items of income and expense directly derived from or incurred by this segment before interest expense, decreased by \$7,411,000 as compared to the prior year period. The decrease was primarily due to the liquidation of all of our holdings of REIT securities in 2013.

### Corporate

The following table summarizes our results from our non-segment specific income and expense items for the years ended December 31, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Interest and other income	\$ 375	\$ 699
General and administrative	(4,317)	(3,408)
Related party fees	(9,289)	(8,953)
Transaction costs	(1,885)	(421)
Interest expense	(7,310)	(3,153)
Federal, state and local taxes	(430)	(232)
Operating loss	<u>\$(22,856)</u>	<u>\$(15,468)</u>

The decrease in corporate operations for the comparable periods was due primarily to the following:

- an increase in corporate interest expense of \$4,178,000 resulting from the issuance of our Senior Notes in August 2012;
- a \$1,464,000 increase in transaction costs primarily associated with our acquisition of the four luxury residential properties; and
- a \$909,000 increase in general and administrative expense due to \$899,000 in compensation expense associated with the issuance of Restricted Shares in 2013.

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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. Certain balances have been reclassified as a result of discontinued operations (in thousands):

	2012	2011
Rents and reimbursements	\$ 44,213	\$ 35,848
Operating expenses	(13,614)	(12,437)
Real estate taxes	(3,672)	(3,541)
Equity in income (loss) of Marc Realty investments	33	(775)
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	—
Equity in income of Mentor	46	—
Equity in income of F-II Co-invest	232	—
Operating income	29,545	19,546
Depreciation and amortization expense	(15,119)	(10,692)
Interest expense	(12,348)	(11,057)
Impairment loss on investments in real estate	(1,738)	(4,600)
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)	6,439
Operating properties net income (loss)	\$ 219	\$(14,736)

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, increased by \$9,999,000 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	\$ 34,586	\$ 34,927
New store properties	9,627	921
	<u>44,213</u>	<u>35,848</u>
Operating expenses		
Same store properties	8,179	12,111
New store properties	5,435	326
	<u>13,614</u>	<u>12,437</u>
Real estate taxes		
Same store properties	2,544	3,474
New store properties	1,128	67
	<u>3,672</u>	<u>3,541</u>
Consolidated operating properties operating income		
Same store properties	23,863	19,342
New store properties	3,064	528
	<u>\$ 26,927</u>	<u>\$ 19,870</u>

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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 \$3,932,000 and a decrease in real estate taxes of \$930,000. The same store results were supplemented by positive results from our new store properties.

- Rental revenues increased by \$8,365,000 due to an increase in new store revenues of \$8,706,000, while there was a slight decrease in same store revenues of \$341,000. 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 decline in 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 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 \$1,177,000 due to expenses at our new store properties of \$5,435,000. Same store operating expenses decreased by \$3,932,000 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 \$131,000 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 \$930,000 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.

Depreciation and amortization expense increased by \$4,427,000 in 2012 primarily as a result of our new store properties. Interest expenses related to our operating properties increased by \$1,291,000 primarily as a result of interest expense of \$2,240,000 at our new store properties, in particular \$1,594,000 at our 450 W 14<sup>th</sup> Street new store property located in New York, New York. This increase was partially offset by refinancing our Lisle, Illinois properties which resulted in decreased interest expense of \$422,000 as well through amortization of our other same store properties.

During 2012 we recognized impairment charges of \$1,738,000 on our Atlanta, Georgia retail property as a result of a change to the holding period for this property. During 2011 we recognized impairment charges of \$4,600,000 on our Churchill, Pennsylvania property. 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 \$6,439,000 of gain on extinguishment of debt in connection with the early satisfaction of the debt on our Lisle, Illinois property. As a result of a change in control at our 450 W 14<sup>th</sup> 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 \$2,968,000 for the year ended December 31, 2012 compared to a net loss of \$324,000 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.
- 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.



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- 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 \$808,000 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 of Marc Realty	—	338
Equity in earnings of Lex-Win Concord	—	258
Equity in earnings of ROIC Riverside	706	936
Equity in earnings of Concord Debt Holdings	422	3,216
Equity in earnings of CDH CDO	1,715	480
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 Social 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	—
Realized gain on sale of securities carried at fair value	614	—
Unrealized gain on loan securities carried at fair value	447	2,738
Loan assets operating income	33,355	36,220
General and administrative expense	(121)	(75)
Interest expense	(1,494)	(850)
Loan assets net income	<u>\$31,740</u>	<u>\$35,295</u>

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

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 \$2,865,000 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;

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- 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 \$6,825,000 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 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
REIT securities net 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 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 non-segment specific income and expense items for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Interest and other income	\$ 699	\$ 1,175
General and administrative	(3,408)	(3,452)
Related party fees	(8,953)	(7,690)
Transaction costs	(421)	(519)
Interest expense	(3,153)	(2,094)
Loss on redemption of Series B-1 Preferred Shares	—	(100)
State and local taxes	(232)	(376)
Operating loss	<u>\$(15,468)</u>	<u>\$(13,056)</u>

The increase in operating loss 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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### **Discontinued Operations**

Our office properties in Deer Valley, Arizona; Lisle, Illinois; Indianapolis, Indiana; and Andover, Massachusetts, our retail properties in Lafayette, Louisiana; St. Louis, Missouri; Knoxville, Tennessee; Memphis, Tennessee; Denton, Texas; and Seabrook, Texas and our residential property in Meriden, Connecticut are classified as discontinued operations for all periods presented.

The Lafayette, Louisiana property was classified as discontinued operations as of September 30, 2010. The ownership of the Lafayette, Louisiana property to reverted back to the land owner as of November 1, 2010. Final settlement with the tenant occurred in 2011.

The Knoxville, Tennessee location has also been classified as discontinued operations since September 30, 2010. In August 2011, we sold our Knoxville, Tennessee property for net proceeds of \$2,151,000.

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 and in December 2011 the property was sold 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. The property was sold on September 28, 2012 for \$6,300,000 and we received proceeds of \$1,071,000 after satisfaction of the debt.

We also classified our Memphis, Tennessee property as discontinued operations in the third quarter of 2012. On September 28, 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.

In March 2013 the Andover, Massachusetts property was classified as discontinued operations and sold. The property was sold for net proceeds of \$11,538,000 and we recorded a \$2,775,000 gain on the sale of the property.

In June 2013 the Deer Valley, Arizona and Denton, Texas properties were classified as discontinued operations. The Deer Valley, Arizona property was sold in June 2013 for net proceeds of \$19,585,000 and we recorded a \$6,745,000 gain on the sale of the property. We recorded an \$824,000 impairment charge on the Denton, Texas property in 2012 as a result of a change to the anticipated holding period of this property. We recorded an additional \$154,000 impairment charge for this property in June 2013 as a result of the purchase contract. The property was sold in July 2013 and we received net proceeds of \$1,708,000.

In August 2013, the Seabrook, Texas property was classified as discontinued operations. The property was sold in August 2013 for net proceeds of \$3,202,000 and we recorded a \$1,428,000 gain on the sale of the property.

In September 2013, our 701 Arboretum property located in Lisle, Illinois was classified as held for sale. We had previously recorded a \$3,000,000 impairment charge on this property in 2011 as a result of continued declines in occupancy. We recorded an additional \$2,750,000 impairment charge in 2013 as a result of the purchase contract. The property was sold in December 2013 for net proceeds of \$2,351,000 and we recorded a \$58,000 gain on the sale.

The Meriden, Connecticut property was classified as held for sale as of December 31, 2013. A purchase and sale contract was signed for a gross sales price of \$27,500,000 and we received a non-refundable deposit of \$500,000. The sale of the property was consummated on February 26, 2014. After satisfaction of the debt, we received net proceeds of \$5,106,000 on 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, depreciation and amortization related to 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

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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, 2013, 2012 and 2011 (in thousands, except per share amounts):

	2013	2012	2011
<b>Basic</b>			
Net income attributable to Winthrop Realty Trust	\$ 28,778	\$24,631	\$10,933
Real estate depreciation	13,671	11,281	8,646
Amortization of lease intangibles	8,235	6,785	4,895
Gain on sale of real estate	(11,005)	(945)	(392)
(Gain) loss on sale of equity investments	110	(199)	(207)
Gain on property consolidation	—	—	(818)
Trust's share of real estate depreciation and amortization of unconsolidated interests	10,314	13,752	11,466
Trust's share of loss on sale of real estate of unconsolidated interests	722	—	—
Impairment loss on investments in real estate	2,904	3,260	7,600
Impairment loss on equity investments	7,687	—	21,058
Less: Non-controlling interest share of real estate depreciation and amortization	(4,146)	(2,831)	(3,483)
Funds from operations	57,270	55,734	59,698
Preferred dividend on Series C Preferred Shares	—	—	(585)
Preferred dividend on Series D Preferred Shares	(11,146)	(9,285)	(339)
Amount allocated to Restricted Shares	(307)	—	—
Allocation of earnings to Series B-1 Preferred Shares	—	—	(325)
Allocation of earnings to Series C Preferred Shares	—	—	(213)
<b>FFO applicable to Common Shares - Basic</b>	<b>\$ 45,817</b>	<b>\$46,449</b>	<b>\$58,236</b>
<b>Weighted-average Common Shares</b>	<b>33,743</b>	<b>33,062</b>	<b>31,428</b>
<b>FFO Per Common Share - Basic</b>	<b>\$ 1.36</b>	<b>\$ 1.40</b>	<b>\$ 1.85</b>
<b>Diluted</b>			
Funds from operations	\$ 57,270	\$55,734	\$59,698
Preferred dividend on Series C Preferred Shares	—	—	(585)
Preferred dividend on Series D Preferred Shares	(11,146)	(9,285)	(339)
Amount allocated to Restricted C Shares	(307)	—	—
Allocation of earnings to Series B-1 Preferred Shares	—	—	(325)
Allocation of earnings to Series C Preferred Shares	—	—	(213)
<b>FFO applicable to Common Shares</b>	<b>\$ 45,817</b>	<b>\$46,449</b>	<b>\$58,236</b>
Weighted-average Common Shares	33,743	33,062	31,428
Stock options	—	—	—
Restricted Shares	31	—	—
<b>Diluted weighted-average Common Shares</b>	<b>33,774</b>	<b>33,062</b>	<b>31,428</b>
<b>FFO Per Common Share - Diluted</b>	<b>\$ 1.36</b>	<b>\$ 1.40</b>	<b>\$ 1.85</b>

## Off-Balance Sheet Investments

We have nine off-balance sheet investments in operating properties totaling \$133,837,000 and six off-balance sheet investments in loan assets totaling \$15,248,000 at December 31, 2013. Our exposure to loss is limited to our investment balance. See Item 8 – Financial Statements, Note 8 for additional information on these investments.

## 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.

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### 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 group's carrying amount. The impairment loss is measured by comparing the fair value of the asset group 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. See Item 8 – Note 3 for further discussion on significant estimates associated with our equity investments.

*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 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 two consolidated variable interest entities at December 31, 2013.

#### Variable Interest Entities Not Consolidated

*Equity Method and Preferred Equity Investments* – We have reviewed our various equity method and preferred equity investments and identified nine investments for which we hold a variable interest in a VIE. Of these nine interests, there are five 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

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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. There is one additional loan receivable for which the VIE assessment was made primarily based on the fact that the equity holders of the underlying investment lack the right to receive returns due to the lender’s participation interest.

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.”

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### ITEM 7A – QUANTITATIVE AND 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, 2013 (in thousands):

Type	Maturity	Strike Rate	Notional Amount of Hedge	Cost of Hedge	Estimated Fair Value of Hedge
Cap	May-14	1.75%	\$ 51,982	\$ 434	\$ —
Cap	Aug-14	0.50%	13,408	22	(4)
Cap	Oct-14	1.00%	5,753	174	1
Swap	May-16	0.50%	42,440	—	(33)
Swap	Oct-16	0.69%	150,000	—	(86)
Cap	Nov-17	4.00%	50,000	165	186
Cap	Nov-18	5.00%	50,000	220	248

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 \$474,112,000 and \$324,177,000 at December 31, 2013 and December 31, 2012, respectively. The fair value of our Senior Notes, based on quoted market price, was \$86,940,000 and \$89,183,000 at December 31, 2013 and 2012, respectively.

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, 2013 taking into consideration the effect of our derivative financial investments (in thousands):

	Change in LIBOR (2)			
	-0.17%	1%	2%	3%
Change in consolidated interest expense	\$ (10)	\$135	\$437	\$461
Pro-rata share of change in interest expense of debt on non-consolidated entities (1)	(19)	102	159	204
(Increase) decrease in net income	\$ (29)	\$237	\$596	\$665

- (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, 2013 was 0.1677%.



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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 \$170,541,000 and bears interest at a rate indexed to the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA). The following table shows the annual effect a change in the SIFMA rate would have on the Trust based on property level interest expense based upon the unhedged balances in variable rate debt at November 30, 2013 (in thousands):

	Change in SIFMA(1)			
	0.05%	1%	2%	3%
Change in consolidated interest expense	\$—	\$—	\$ —	\$ —
Pro-rata share of change in interest expense on Vintage debt	(46)	922	1,844	2,766
(Increase) decrease in net income	<u>\$ (46)</u>	<u>\$922</u>	<u>\$1,844</u>	<u>\$2,766</u>

(1) The one-month SIFMA rate at November 30, 2013 was 0.05%.

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, 2013 (in thousands):

	Change in LIBOR (1)			
	-0.17%	1%	2%	3%
Change in consolidated interest income	\$ (3)	\$ 38	\$ 85	\$165
Pro-rata share of change in interest income of loan assets in non-consolidated entities	(17)	100	200	300
Increase (decrease) in net income	<u>\$ (20)</u>	<u>\$138</u>	<u>\$285</u>	<u>\$465</u>

(1) The one month LIBOR rate at December 31, 2013 was 0.1677%.

## 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 consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Winthrop Realty Trust and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United State 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, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) 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, MA  
March 17, 2014

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

	December 31,	
	2013	2012
<b>ASSETS</b>		
Investments in real estate, at cost		
Land	\$ 82,215	\$ 43,252
Buildings and improvements	588,653	378,737
	670,868	421,989
Less: accumulated depreciation	(56,448)	(51,553)
Investments in real estate, net (variable interest entities \$65,275 and \$21,423, respectively)	614,420	370,436
Cash and cash equivalents (variable interest entities \$1,163 and \$509, respectively)	112,512	97,682
Restricted cash held in escrows (variable interest entities \$7,340 and \$1,101, respectively)	13,372	13,250
Loans receivable, net	101,100	211,250
Secured financing receivable	30,728	—
Accounts receivable, net of allowances of \$414 and \$374, respectively	2,229	1,418
Accrued rental income	19,760	17,241
Securities carried at fair value	—	19,694
Loan securities carried at fair value	226	11
Preferred equity investments	6,485	12,250
Equity investments	149,085	134,859
Lease intangibles, net (variable interest entities \$20,043 and \$3,485, respectively)	49,866	37,744
Deferred financing costs, net	6,189	4,864
Other assets	3,314	2,464
Assets held for sale	23,038	—
<b>TOTAL ASSETS</b>	<b><u>\$1,132,324</u></b>	<b><u>\$ 923,163</u></b>
<b>LIABILITIES</b>		
Mortgage loans payable (variable interest entities \$90,404 and \$23,184, respectively)	\$ 444,933	\$ 280,576
Senior notes payable	86,250	86,250
Secured financings	29,150	52,920
Notes payable (variable interest entities \$942 and \$876, respectively)	1,742	1,676
Accounts payable, accrued liabilities and other liabilities	26,266	21,056
Related party fees payable	2,831	2,664
Dividends payable	6,099	5,366
Deferred income	1,353	1,136
Below market lease intangibles, net (variable interest entities \$527 and \$51, respectively)	2,399	2,255
Liabilities of assets held for sale	21,638	—
<b>TOTAL LIABILITIES</b>	<b><u>622,661</u></b>	<b><u>453,899</u></b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
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 both issued and outstanding at December 31, 2013 and December 31, 2012	120,500	120,500
Common Shares of Beneficial Interest, \$1 par, unlimited shares authorized; 36,401,438 and 33,018,711 issued and outstanding at December 31, 2013 and December 31, 2012, respectively	35,809	33,019
Additional paid-in capital	647,121	618,426
Accumulated distributions in excess of net income	(322,432)	(317,385)
Accumulated other comprehensive loss	(124)	(50)
Total Winthrop Realty Trust Shareholders' Equity	480,874	454,510
Non-controlling interests	28,789	14,754
Total Equity	509,663	469,264
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>\$1,132,324</u></b>	<b><u>\$ 923,163</u></b>

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,		
	2013	2012	2011
<b>Revenue</b>			
Rents and reimbursements	\$ 61,103	\$44,213	\$ 35,848
Interest, dividends and discount accretion	18,455	21,123	25,458
	<u>79,558</u>	<u>65,336</u>	<u>61,306</u>
<b>Expenses</b>			
Property operating	20,724	13,614	12,437
Real estate taxes	5,876	3,672	3,541
Depreciation and amortization	20,443	15,119	10,692
Interest	23,412	16,995	14,001
Impairment loss on investments in real estate	—	1,738	4,600
Provision for loss on loans receivable	348	—	—
General and administrative	4,363	3,529	3,527
Related party fees	9,289	8,953	7,690
Transaction costs	1,885	421	519
Federal, state and local taxes	430	232	376
	<u>86,770</u>	<u>64,273</u>	<u>57,383</u>
<b>Other income (loss)</b>			
Equity in income (loss) of equity investments (inclusive of impairments of \$7,687, \$0 and \$21,058)	22,641	14,843	(12,712)
Earnings from preferred equity investments	613	—	338
Realized gain on sale of securities carried at fair value	742	41	123
Unrealized gain (loss) on securities carried at fair value	(142)	6,916	2,788
Gain (loss) on extinguishment of debt, net	—	(121)	6,339
Realized gain on loan securities carried at fair value	—	614	—
Unrealized gain on loan securities carried at fair value	215	447	2,738
Settlement income (expense)	(411)	—	5,868
Gain on consolidation of property	—	—	818
Interest and other income	375	699	1,175
	<u>24,033</u>	<u>23,439</u>	<u>7,475</u>
Income from continuing operations	16,821	24,502	11,398
<b>Discontinued operations</b>			
Net income (loss) from discontinued operations	7,667	(118)	349
<b>Net income</b>	24,488	24,384	11,747
Net loss (income) attributable to non-controlling interest	4,290	247	(814)
<b>Net income attributable to Winthrop Realty Trust</b>	28,778	24,631	10,933
Preferred dividend of Series C Preferred Shares	—	—	(585)
Preferred dividend of Series D Preferred Shares	(11,146)	(9,285)	(339)
Amount allocated to Restricted Common Shares	(307)	—	—
<b>Net income attributable to Common Shares</b>	<u>\$ 17,325</u>	<u>\$15,346</u>	<u>\$ 10,009</u>
<b>Per Common Share data - Basic</b>			
Income from continuing operations	\$ 0.28	\$ 0.46	\$ 0.31
Income (loss) from discontinued operations	0.23	—	0.01
Net income attributable to Common Shares	<u>\$ 0.51</u>	<u>\$ 0.46</u>	<u>\$ 0.32</u>
<b>Per Common Share data - Diluted</b>			
Income from continuing operations	\$ 0.28	\$ 0.46	\$ 0.31
Income (loss) from discontinued operations	0.23	—	0.01
Net income attributable to Common Shares	<u>\$ 0.51</u>	<u>\$ 0.46</u>	<u>\$ 0.32</u>
<b>Basic Weighted-Average Common Shares</b>	<u>33,743</u>	<u>33,062</u>	<u>31,428</u>
<b>Diluted Weighted-Average Common Shares</b>	<u>33,774</u>	<u>33,062</u>	<u>31,428</u>
<b>Comprehensive income</b>			
Net income	\$ 24,488	\$24,384	\$ 11,747
Change in unrealized gain (loss) on interest rate derivatives	(74)	42	(29)
Consolidated comprehensive income	24,414	24,426	11,718
Net (income) loss attributable to non-controlling interest	4,290	247	(814)
Comprehensive (income) loss attributable to non-controlling interest	4,290	247	(814)
<b>Comprehensive income attributable to Winthrop Realty Trust</b>	<u>\$ 28,704</u>	<u>\$24,673</u>	<u>\$ 10,904</u>

See Notes to Consolidated Financial Statements.

**WINTHROP REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**  
(In thousands except per share data)

						Accumulated				
	Series D Preferred Shares of Beneficial Interest		Common Shares of Beneficial Interest		Additional Paid-In Capital	Distributions	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total	
	Shares	Amount	Shares	Amount		in Excess of Net Income				
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 declared on Common Shares of beneficial interest (\$0.65 per share)	—	—	—	—	—	(20,473)	—	—	(20,473)	
Dividends declared on Series C Preferred Shares (\$1.43 per share)	—	—	—	—	—	(585)	—	—	(585)	
Dividends declared 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, 2013, 2012 AND 2011**  
(In thousands except per share data)

	Series D Preferred Shares of Beneficial Interest		Common Shares of Beneficial Interest		Additional Paid-In Capital	Distributions in Excess of Net Income	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 declared on Common Shares of beneficial interest (\$0.65 per share)	—	—	—	—	—	(21,485)	—	—	(21,485)
Dividends declared 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>
Net income attributable to Winthrop Realty Trust	—	—	—	—	—	28,778	—	—	28,778
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	(4,290)	(4,290)
Distributions to non-controlling interests	—	—	—	—	—	—	—	(51)	(51)
Contributions from non-controlling interests	—	—	—	—	—	—	—	18,629	18,629
Purchase of non-controlling interests	—	—	—	—	103	—	—	(253)	(150)
Dividends declared on Common Shares of Beneficial Interest (\$0.65 per share)	—	—	—	—	—	(22,372)	—	—	(22,372)
Dividends declared on Series D Preferred Shares (\$2.3125 per share)	—	—	—	—	—	(11,146)	—	—	(11,146)
Dividends declared on Restricted Shares	—	—	—	—	—	(307)	—	—	(307)
Change in unrealized loss on interest rate derivatives	—	—	—	—	—	—	(74)	—	(74)
Stock issued pursuant to Dividend Reinvestment Plan	—	—	40	40	424	—	—	—	464
Net proceeds from Common Shares offering	—	—	2,750	2,750	27,271	—	—	—	30,021
Issuance of Restricted Shares	—	—	592	—	—	—	—	—	—
Amortization of Restricted Shares	—	—	—	—	897	—	—	—	897
Balance, December 31, 2013	<u>4,820</u>	<u>\$ 120,500</u>	<u>36,401</u>	<u>\$35,809</u>	<u>\$647,121</u>	<u>\$(322,432)</u>	<u>\$ (124)</u>	<u>\$ 28,789</u>	<u>\$509,663</u>

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2013	2012	2011
<b>Cash flows from operating activities</b>			
Net Income	\$ 24,488	\$ 24,384	\$ 11,747
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization (including amortization of deferred financing costs and fair value of debt)	15,451	11,824	9,412
Amortization of lease intangibles	8,550	6,746	4,472
Straight-line rental income	669	(2,177)	(872)
Loan discount accretion	(4,121)	(8,333)	(13,401)
Discount accretion received in cash	37	15,720	13,290
Earnings of preferred equity investments	(613)	—	(338)
Distributions of income from preferred equity investments	607	97	571
(Income) loss of equity investments	(22,641)	(14,678)	12,712
Distributions of income from equity investments	24,112	21,593	12,696
Restricted cash held in escrows	1,242	(3,477)	1,431
Gain on sale of securities carried at fair value	(742)	(41)	(123)
Unrealized loss (gain) on securities carried at fair value	142	(6,916)	(2,788)
Gain on sale of real estate investments	(11,005)	(945)	(392)
Gain on sale of loan securities carried at fair value	—	(614)	—
Unrealized gain on loan securities carried at fair value	(215)	(447)	(2,738)
Impairment loss on investments in real estate	2,904	3,260	7,600
Loss (gain) on extinguishment of debt	—	121	(9,258)
Gain on consolidation of property	—	—	(818)
Provision for loss on loans receivable	348	—	—
Tenant leasing costs	(4,229)	(4,250)	(1,314)
Equity compensation expenses	897	—	—
Bad debt expense (recovery)	40	(265)	377
Changes in assets and liabilities:			
Interest receivable	(214)	(516)	37
Accounts receivable and other assets	(1,316)	726	(785)
Accounts payable, accrued liabilities and other liabilities	(4,123)	4,623	(1,831)
Net cash provided by operating activities	<u>30,268</u>	<u>46,435</u>	<u>39,687</u>
<b>Cash flows from investing activities</b>			
Issuance and acquisition of loans receivable	(21,437)	(163,800)	(67,619)
Investment in real estate	(257,142)	(37,678)	(9,751)
Investment in equity investments	(30,341)	(78,679)	(151,219)
Investment in preferred equity investment	—	(10,750)	(7,564)
Return of capital distribution from equity investments	14,618	84,026	31,890
Return of capital distribution from preferred equity investment	5,771	—	—
Return of capital distribution from securities carried at fair value	376	—	—
Purchase of securities carried at fair value	—	(5,655)	(19,321)
Proceeds from sale of investments in real estate	38,690	7,024	3,629
Proceeds from sale of equity investments	26	4,297	6,000
Proceeds from sale of securities carried at fair value	19,918	21,774	26,408
Proceeds from pay off of loan securities	—	6,359	8,748
Proceeds from sale of loan receivables	19,319	—	—
Restricted cash held in escrows	863	(5,600)	3,160
Issuance of secured financing receivable	(30,000)	—	—
Collection of loans receivable	56,088	68,824	70,289
Deposits on assets held for sale	500	—	—
Cash from consolidation of properties	473	—	—
Cash from foreclosure on properties	—	411	—
Net cash used in investing activities	<u>(182,278)</u>	<u>(109,447)</u>	<u>(105,350)</u>

(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,		
	2013	2012	2011
<b>Cash flows from financing activities</b>			
Proceeds from mortgage loans payable	\$198,100	\$ 36,897	\$ 32,494
Proceeds from notes payable	—	880	—
Payment of notes payable	—	(80)	—
Proceeds from revolving line of credit	—	—	67,324
Payment of revolving line of credit	—	(40,000)	(52,774)
Principal payments of mortgage loans payable	(22,287)	(25,584)	(72,574)
Proceeds from issuance of senior notes payable	—	86,250	—
Proceeds from secured financing	—	25,000	29,150
Payment of secured financing	(23,770)	(1,230)	—
Restricted cash held in escrows	(228)	(42)	89
Deferred financing costs	(796)	(4,198)	(788)
Purchase of non-controlling interests	(150)	(2,050)	—
Contribution from non-controlling interest	18,629	4,576	1,349
Distribution to non-controlling interest	(51)	(7,242)	(356)
Proceeds from issuance of Common Shares under Dividend Reinvestment Plan	464	517	2,760
Proceeds from issuance of Common Shares through offering, net	30,021	—	61,386
Buyback of Common Shares	—	(742)	—
Issuance of Series D Preferred Shares	—	77,563	38,378
Dividend paid on Common Shares	(21,919)	(21,488)	(19,496)
Dividend paid on Series C Preferred Shares	—	—	(624)
Dividend paid on Series D Preferred Shares	(11,146)	(9,285)	(339)
Dividend paid on Restricted Shares	(27)	—	—
Redemption of Series B-1 Preferred Shares	—	—	(21,400)
Redemption of Series C Preferred Shares	—	—	(3,221)
Net cash provided by financing activities	<u>166,840</u>	<u>119,742</u>	<u>61,358</u>
Net increase (decrease) in cash and cash equivalents	14,830	56,730	(4,305)
Cash and cash equivalents at beginning of year	97,682	40,952	45,257
Cash and cash equivalents at end of year	<u>\$112,512</u>	<u>\$ 97,682</u>	<u>\$ 40,952</u>
<b>Supplemental Disclosure of Cash Flow Information</b>			
Interest paid	\$ 23,735	\$ 16,467	\$ 16,246
Capitalized interest	\$ 1,443	\$ —	\$ —
Taxes paid	\$ 247	\$ 332	\$ 396
<b>Supplemental Disclosure on Non-Cash Investing and Financing Activities</b>			
Dividends accrued on Common Shares and Restricted Shares	\$ 6,099	\$ 5,366	\$ 5,396
Capital expenditures accrued	\$ 3,140	\$ 4,011	\$ 4,285
Assumption of mortgage loan on investment in real estate	\$ 9,248	\$ 13,600	\$ 49,091
Contribution to WRT-Elad One South State Equity L.P.	\$ 2,083	\$ —	\$ —
Distribution from WRT-One South State Lender LP	\$ (2,083)	\$ —	\$ —
Fair value of assets acquired	\$ 62,208	\$ —	\$ —
Fair value of liabilities assumed	\$ 62,198	\$ —	\$ —
Transfer from preferred equity investments	\$ —	\$ 3,923	\$ 7,843
Transfer from loans receivable	\$ (877)	\$ 2,938	\$ —
Transfer to equity investments	\$ —	\$ (6,861)	\$ (5,035)
Transfer from equity investments	\$ —	\$ 17,600	\$ 12,544
Transfer to loans receivable	\$ —	\$ (11,750)	\$ (6,534)
Transfer to additional paid-in capital	\$ —	\$ (5,487)	\$ —
Transfer to non-controlling interests	\$ —	\$ (363)	\$ —
Transfer to preferred equity investments	\$ —	\$ —	\$ (2,022)
Transfer to investments in lease intangibles	\$ —	\$ —	\$ (11,904)
Transfer to investments in real estate	\$ —	\$ —	\$ (52,778)
Transfer to below market lease intangibles	\$ —	\$ —	\$ 1,005
Transfer from loan securities	\$ —	\$ —	\$ 662

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, an indirect 33% interest in WRT-NV ST Holdings LLC 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 Deer Valley, Arizona; Lisle, Illinois, Indianapolis, Indiana; Andover, Massachusetts; St. Louis, Missouri; Knoxville, Tennessee; Memphis, Tennessee; Denton, Texas; and Seabrook, Texas. Also included in discontinued operations for all periods presented are the operations of the Trust’s residential property in Meriden, Connecticut which was under contract to be sold and is classified as held for sale at December 31, 2013. This property was sold on February 26, 2014.

Out of Period Adjustments

During 2013, the Trust identified an error in its previously reported interim financial statements relating to the purchase price allocation of the Trust’s investment in the 1515 Market Street property. The Trust recorded an out of period adjustment in the amount of \$1.3 million to correct the overstatement of other liabilities and overstatement of building in the Trust’s consolidated balance sheet. The Trust also recorded an out of period adjustment to reduce depreciation expense in the amount of \$21,000 during the Trust’s fourth quarter of 2013 to correct the depreciation expense in the consolidated statement of operations. The Trust concluded that these adjustments are not material to the current period or the prior period’s financial position or results from operations. As such, this cumulative change was recorded in the consolidated balance sheet and consolidated statement of operations during the quarter ended on December 31, 2013. This error had no impact on any other periods presented.

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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 expended. If the acquisition is determined to be an asset acquisition, then the related acquisition costs will be capitalized.

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.

Real estate investments and purchased intangible assets 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 to be assumed by the buyer 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. In addition, certain security deposit accounts are classified as restricted cash. The classification of restricted cash within the Consolidated Statement of Cash Flows is determined by the nature of the escrow account. Activity in escrow accounts related to real estate taxes, insurance, rent reserves and security deposits is classified as operating activity. Activity in escrow accounts related to capital improvements and tenant improvements is classified as investing activity. Any debt service reserves are classified as financing activity.

### 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.

Accrued rental income includes the difference between straight line rent and contractual amounts due. The Trust reviews its straight line rent receivables monthly in conjunction with its review of allowance of doubtful accounts.

### 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.

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### Preferred Equity Investment

The Trust has certain investments in ventures which entitle it to priority returns ahead of the other equity holders 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 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

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 lease value is recorded as an intangible asset and amortized as a charge to amortization expense over the life of the respective lease.

### Deferred Financing Costs

Direct financing costs are deferred and amortized over the terms of the related agreements as a component of interest expense.

### 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.

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### Derivative Financial Instruments

The Trust's interest rate swap and interest rate cap agreements are classified on the balance sheet as other assets and are carried 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 decreased revenue by \$862,000 in 2013 and increased revenue by \$2,177,000 in 2012 and \$872,000 in 2011. The accrued straight-line rent receivable amounts at December 31, 2013 and 2012 were \$19,760,000 and \$17,241,000, 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 and the expenses are incurred.

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.

In order for the Trust to continue to qualify as a REIT, the value of the TRS stock cannot exceed 25% 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

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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. The only provision for federal income taxes relates to the TRS. Our tax returns are subject to audit by taxing authorities. The tax years 2010-2013 remain open to examination by major taxing jurisdictions to which we are subject.

### Series D Preferred Shares

On March 23, 2012 the Trust closed on a public offering of 3,220,000 Series D Cumulative Redeemable Preferred Shares of Beneficial Interest (the “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 the Trust fails 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, 2013 and 2012.

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.

### Stock-Based Compensation

Pursuant to the Trust’s 2007 Long Term Stock Incentive Plan the Trust may, from time to time, issue stock-based compensation awards to certain eligible persons including those performing services for FUR Advisors LLC (“FUR Advisors”), the Trust’s external advisor. During 2013, the Trust issued 600,000 restricted common shares of beneficial interest. See Note 21 for further discussion. The Trust accounts for this stock-based compensation in accordance with ASC 505-50, *Equity-Based Payments to Non-Employees*. Until the awards are no longer subject to forfeiture, the Trust measures stock-based compensation expense at each reporting date for any changes in fair value and recognizes the expense prorated for the portion of the requisite service period completed.

### Earnings Per Share

The Trust determines basic earnings per share based on the weighted average number of common shares of beneficial interest (“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.



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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):

	2013	2012	2011
<b>Basic</b>			
Income from continuing operations	\$ 16,821	\$24,502	\$11,398
(Income) loss attributable to non-controlling interest	4,290	247	(814)
Preferred dividend of Series C Preferred Shares	—	—	(585)
Preferred dividend of Series D Preferred Shares	(11,146)	(9,285)	(339)
Amount allocated to Restricted Shares	(307)	—	—
Income from continuing operations applicable to Common Shares	9,658	15,464	9,660
Income (loss) from discontinued operations	7,667	(118)	349
Net income applicable to Common Shares for earnings per share purposes	<u>\$ 17,325</u>	<u>\$15,346</u>	<u>\$10,009</u>
Basic weighted-average Common Shares	<u>33,743</u>	<u>33,062</u>	<u>31,428</u>
Income from continuing operations	\$ 0.28	\$ 0.46	\$ 0.31
Income (loss) from discontinued operations	0.23	—	0.01
Net income per Common Share - basic	<u>\$ 0.51</u>	<u>\$ 0.46</u>	<u>\$ 0.32</u>
<b>Diluted</b>			
Income from continuing operations	\$ 16,821	\$24,502	\$11,398
(Income) loss attributable to non-controlling interest	4,290	247	(814)
Preferred dividend of Series C Preferred Shares	—	—	(585)
Preferred dividend of Series D Preferred Shares	(11,146)	(9,285)	(339)
Amount allocated to Restricted Shares	(307)	—	—
Income from continuing operations applicable to Common Shares	9,658	15,464	9,660
Income (loss) from discontinued operations	7,667	(118)	349
Net income applicable to Common Shares for earnings per share purposes	<u>\$ 17,325</u>	<u>\$15,346</u>	<u>\$10,009</u>
Basic weighted-average Common Shares	33,743	33,062	31,428
Series B-1 Preferred Shares (1)	—	—	—
Series C Preferred Shares (2)	—	—	—
Stock options (3)	—	—	—
Restricted Shares (4)	31	—	—
Diluted weighted-average Common Shares	<u>33,774</u>	<u>33,062</u>	<u>31,428</u>
Income from continuing operations	\$ 0.28	\$ 0.46	\$ 0.31
Income (loss) from discontinued operations	0.23	—	0.01
Net income per Common Share - diluted	<u>\$ 0.51</u>	<u>\$ 0.46</u>	<u>\$ 0.32</u>

- (1) The Series B-1 Preferred Shares are 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.
- (2) The Series C Preferred Shares were anti-dilutive for the year ended December 31, 2011 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 exercised in 2013. The resulting shares were included in the basic weighted average Common Shares. The Trust's stock options were dilutive for the year ended December 31, 2012. The weighted-average stock options for the year ended December 31, 2012 were less than one thousand shares. The stock options were anti-dilutive for the year ended December 31, 2011 are not included in the weighted-average shares outstanding for the calculation of diluted earnings per Common Share.
- (4) The Trust's Restricted Shares were issued in 2013 and were dilutive for the year ended December 31, 2013.



**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 are effective for annual reporting periods beginning on or after January 1, 2013. The new disclosures are required for both interim and annual reporting. The adoption did not have a material impact on the Trust's 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 are effective for annual reporting periods beginning on or after January 1, 2013. The new disclosures are required for all prior comparative periods presented. The adoption did not have a material impact on the Trust's consolidated financial statements as there was no collateral received or posted related to the Trust's derivatives.

**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, 2013, 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	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)	Total
<u>Recurring Basis</u>	<u>Liabilities (Level 1)</u>	<u>(Level 2)</u>		
<b>Assets</b>				
Loan securities carried at fair value	\$ —	\$ —	\$ 226	\$226
Interest rate hedges	—	316	—	316
	<u>\$ —</u>	<u>\$ 316</u>	<u>\$ 226</u>	<u>\$542</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, 2012, according to the level in the fair value hierarchy within which those measurements fall (in thousands):

Recurring Basis	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
Securities carried at fair value	\$ 19,694	\$ —	\$ —	\$19,694
Loan securities carried at fair value	—	—	11	11
Interest rate hedges	—	8	—	8
	<u>\$ 19,694</u>	<u>\$ 8</u>	<u>\$ 11</u>	<u>\$19,713</u>

There were no inter-level transfers of assets or liabilities during the years ended December 31, 2013 and 2012.

The table below includes a roll forward (in thousands) of the balance sheet amounts from January 1, 2011 to December 31, 2013, 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.

	Loan Securities Carried at Fair Value
Fair value, January 1, 2011	\$ 11,981
Purchases	—
Sale/repayment	(662)
Payoff at par	(8,748)
Realized gain	—
Unrealized gain	2,738
Transfers in/and or out of Level 3	—
Fair value, December 31, 2011	<u>5,309</u>
Purchases	—
Sale/repayment	(6,359)
Realized gain	614
Unrealized gain	447
Transfers in and/or out of Level 3	—
Fair value, December 31, 2012	<u>11</u>
Purchases	—
Sale/repayment	—
Realized gain	—
Unrealized gain	215
Transfers in and/or out of Level 3	—
Fair value, December 31, 2013	<u>\$ 226</u>

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	Year Ended December 31, 2013	Year Ended December 31, 2012
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	\$ 215	\$ 23

### Quantitative Information about Level 3 Fair Value Measurements

At December 31, 2013 the Trust held only one loan security which is valued at \$226,000, or 20% of face value. The valuation reflects assumptions that would be considered by market participants along with management's assessment of collectible future cash flows.

### 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 \$7,687,000, \$0, and \$21,058,000, on these investments during the years ended December 31, 2013, 2012 and 2011, respectively. See Note 8-Equity Investments for further details on these impairments.

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, 2013, 2012 and 2011.

#### *Investments in Real Estate and Assets Held For Sale*

During 2013, 2012, and 2011 the Trust recognized impairment charges of \$2,904,000, \$3,260,000 and \$7,600,000, 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 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.

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.

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.

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During the quarter ended June 30, 2013 the Trust entered into a purchase and sale agreement on its Denton, Texas property. At June 30, 2013 the purchase deposit was non-refundable and it was probable that the sale would be consummated. As a result the property was classified as held for sale at June 30, 2013. A fair value measurement was prepared based on the purchase contract less costs to sell and a \$154,000 impairment charge was recorded at June 30, 2013. The property was sold on July 2, 2013.

In light of continued leasing challenges and specific sub-market dynamics, at September 30, 2013 the Trust re-evaluated its business plan and revised its holding period for its operating property in Lisle, Illinois referred to as 701 Arboretum. As a result, it was determined that due to the shorter holding period, the carrying value of the 701 Arboretum property was no longer fully recoverable. The Trust had previously recorded a \$3,000,000 impairment charge in 2011 as a result of continued declines in occupancy. The Trust recorded an additional \$2,750,000 impairment charge in 2013 as a result of the purchase contract. The property was sold on December 17, 2013.

The table below presents the Trust's assets and liabilities measured at fair value as of December 31, 2013, 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>Non-Recurring Basis</u>				
Equity Investments	\$ —	\$ —	\$ 6,751	\$6,751
Assets held for sale	—	—	—	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,751</u>	<u>\$6,751</u>

The table below presents the Trust's assets and liabilities measured at fair value 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>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 following table provides quantitative information about the significant unobservable inputs used for non-recurring fair value measurements categorized within Level 3 at December 31, 2013. Fair value measurements related to impairments involve Level 3 inputs.

	Assets Measured at Fair Value (in thousands)	Valuation Technique	Unobservable Input	Input Range	Weighted Average
Equity Investment	\$ 6,551	Indicative Bids <sup>(1)</sup>	Indicative Bids	N/A	N/A
Equity Investment	\$ 150	Indicative Bids <sup>(1)</sup>	Indicative Bids	N/A	N/A
Equity Investment	\$ 50	Indicative Bids <sup>(1)</sup>	Indicative Bids	N/A	N/A

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

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### Financial Instruments Not Reported at Fair Value

The carrying value and estimated fair value of financial instruments not recorded at fair value on a recurring basis but required to be disclosed at fair value were as follows (in thousands):

	December 31, 2013				
	Carrying Amount	Fair Value	Fair value hierarchy level		
			Level 1	Level 2	Level 3
Loans receivable	\$101,100	\$105,045	\$ —	\$ —	\$105,045
Secured financing receivable	30,728	30,728	—	—	30,728
Mortgage loans payable	444,933	444,785	—	—	444,785
Senior notes payable	86,250	86,940	86,940	—	—
Secured financings	29,150	29,327	—	—	29,327
Notes payable	1,742	1,742	—	—	1,742

	December 31, 2012				
	Carrying Amount	Fair Value	Fair value hierarchy level		
			Level 1	Level 2	Level 3
Loans receivable	\$211,250	\$222,246	\$ —	\$ —	\$222,246
Mortgage loans payable	280,576	270,923	—	—	270,923
Senior notes payable	86,250	89,183	89,183	—	—
Secured financings	52,920	53,253	—	—	53,253
Notes payable	1,676	1,676	—	—	1,676

#### *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 \$73,000, \$7,363,000 and \$5,526,000 for the years ended December 31, 2013, 2012 and 2011 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.

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The following table presents as of December 31, 2013 and December 31, 2012 the Trust's financial assets for which the fair value option was elected (in thousands):

<u>Financial Instruments at Fair Value</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>Assets</b>		
Securities carried at fair value:		
REIT Common shares	\$ —	\$ 19,694
Loan securities carried at fair value	226	11
	<u>\$ 226</u>	<u>\$ 19,705</u>

The table below presents as of December 31, 2013 the difference between fair values and the aggregate contractual amounts due for which the fair value option has been elected (in thousands):

	<u>Fair Value at December 31, 2013</u>	<u>Amount Due Upon Maturity</u>	<u>Difference</u>
<b>Assets</b>			
Loan securities carried at fair value	\$ 226	\$ 1,130	\$ 904
	<u>\$ 226</u>	<u>\$ 1,130</u>	<u>\$ 904</u>

## 4. Acquisition, Disposition, Leasing and Financing Activities

### Operating Properties

#### Operating Properties - Acquisition and Financing Activities

*1515 Market Street – loan modification, equity acquisition and refinancing* – 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 at 1515 Market Street, Philadelphia, Pennsylvania ("1515 Market Street"). On February 1, 2013 the Trust entered into a loan modification agreement which extended the maturity date to February 1, 2016, increased the loan balance to \$71,629,000, from \$70,000,000, and changed the interest rate to be the greater of 7.5% or LIBOR plus 6.5%.

Simultaneously with the modification of the loan, the Trust acquired, for \$10,000, an indirect 49% equity interest in the entity ("1515 Market Owner") that owns 1515 Market Street and the general partner interest in 1515 Market Owner. Management has determined that this entity is a variable interest entity ("VIE") and the Trust is the primary beneficiary of the VIE. As a result, the Trust has consolidated this property as of February 1, 2013. All intercompany transactions have been eliminated in consolidation. For segment reporting purposes, this investment will be classified within the operating properties segment as of February 1, 2013. Prior to consolidation, the investment was part of the loan asset segment.

On April 25, 2013 1515 Market Owner obtained a \$43,000,000 non-recourse first mortgage loan (the "1515 First Mortgage") from an unaffiliated third party. The 1515 First Mortgage bears interest at LIBOR plus 2.0% per annum, requires monthly payments of interest only and matures on May 1, 2016. On the same date, the 1515 Market Owner entered into an interest rate swap agreement which effectively fixes LIBOR at 0.50% for the term of the 1515 First Mortgage. The Trust received \$38,472,000 of loan proceeds from the 1515 First Mortgage financing which reduced the balance on the mortgage loan it holds to \$33,157,000. The loan balance can be increased through future funding advances up to an aggregate of \$6,000,000 to cover tenant improvements, capital expenditures and leasing commissions. For each \$500,000 of future advances, the interest rate increases by 0.10%. As of December 31, 2013 the Trust had advanced an additional \$1,500,000 resulting in a 0.3% increase in the interest rate. The loan modification also provides the Trust with a 40% participation interest in the case of a capital event. At December 31, 2013 the loan the Trust holds had a balance of \$36,171,000 inclusive of accrued interest, and entitles it to interest in an amount equal to a rate of 14.3% (subject to increase by 0.10% for each additional \$500,000 advance by the Trust). At December 31, 2013 the Trust's investment in this loan was \$21,098,000 resulting in an effective interest rate on its cash investment in this asset of 19.6%.

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**Summit Pointe Apartments – property acquisition** – On October 25, 2013 the Trust contributed \$4,962,000 for an 80% equity interest in a newly formed venture. On the same date, the venture acquired a 184 unit garden apartment complex known as Summit Pointe Apartments located in Oklahoma City, Oklahoma for a gross purchase price of \$14,500,000. In connection with the acquisition, the venture assumed an existing \$9,248,000 first mortgage loan. The loan bears interest at a rate of 5.7% per annum, requires monthly payments of principal and interest and matures in February 2021. Pursuant to the terms of the venture agreement, the Trust holds an equity interest which entitles the Trust to an 8% priority return from cash flow and, upon disposition of the property, a minimum priority return equal to a 12% IRR. The Trust is the managing member of the venture and has a majority voting interest. The Trust has control akin to that of a general partner and therefore consolidates the venture as of October 25, 2013, the date of acquisition.

**Luxury Residential – property acquisition** – On October 31, 2013 the Trust acquired through a wholly owned venture four newly constructed luxury apartment buildings for an aggregate purchase price of \$246,000,000. The properties are located in Phoenix, Arizona; Stamford, Connecticut; Houston, Texas and San Pedro, California. The properties consist of an aggregate of 761 unsold residential condominium or apartment units and approximately 25,000 square feet of retail space. The acquisition was funded with a \$150,000,000 first mortgage loan which is cross collateralized by all four properties. The loan bears interest at a rate of LIBOR plus 2%, requires monthly payments of interest only and matures on October 31, 2016 with two one year extension options. The balance of the purchase was funded from cash on hand. On the same date, the venture entered into an interest rate swap agreement which effectively fixes LIBOR at 0.69% for the initial term of the first mortgage. In addition, the venture acquired two interest rate caps, each with a notional amount of \$50,000,000 for an aggregate cost of \$390,000. The initial cap is effective for the first one year extension period and caps LIBOR at 4%. The second cap is effective for the second one year extension period and caps LIBOR at 5%.

On November 6, 2013, New Valley LLC (“New Valley”) contributed approximately \$16,365,000 to the entity that acquired the properties in exchange for an indirect 16.3% interest in the properties. The Trust retained an 83.7% interest in the venture and has the right to make all decisions with respect to each of the properties, other than the Stamford, Connecticut property, subject to obtaining New Valley’s consent to certain major decisions. New Valley has the right at any time after November 6, 2015 (or in certain instances prior thereto), but on or prior to November 6, 2016, to have its interest in the venture redeemed for a 50% interest in the Stamford, Connecticut property.

The following table summarizes the allocation of the aggregate purchase price of 1515 Market Street, Summit Pointe Apartments and Luxury Residential at their respective dates of acquisition (in thousands):

	1515 Market Street	Summit Pointe Apartments	Luxury Residential	Total
Land	\$ 18,627	\$ 1,328	\$ 26,805	\$ 46,760
Building	21,860	11,962	214,505	248,327
Other improvements	73	1,126	197	1,396
Fixtures and equipment	—	263	1,895	2,158
Tenant improvements	1,407	—	72	1,479
Lease intangibles	14,943	283	2,860	18,086
Above market lease intangibles	2,867	—	49	2,916
Net working capital acquired	1,132	284	(2,096)	680
Below market lease intangibles	(620)	—	(383)	(1,003)
Total fair value of assets acquired	60,289	15,246	243,904	320,799
Long term liabilities assumed	(60,279)	(9,248)	—	(69,527)
Assumed debt premium	—	(712)	—	(712)
Net assets acquired	\$ 10	\$ 5,286	\$ 243,904	\$250,560



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Intangible assets acquired and intangible liabilities assumed for 1515 Market Street, Summit Pointe Apartments and Luxury Residential consisted of the following (in thousands):

	Carrying Value	Weighted Average Amortization Period (years)
<b>Intangible assets:</b>		
In place lease intangibles	\$ 9,435	4.4
Above market lease intangibles	2,916	6.0
Tenant relationship value	7,388	13.3
Lease commissions, legal and marketing fees	1,263	4.4
<b>Total</b>	<b>\$21,002</b>	<b>7.0</b>
<b>Intangible liabilities:</b>		
Below market lease intangibles	<u>\$ (1,003)</u>	<u>4.0</u>

1515 Market Street contributed approximately \$9,488,000 of revenue and a loss of approximately \$3,805,000 for the period from February 1, 2013 through December 31, 2013. Summit Pointe Apartments contributed approximately \$335,000 of revenue and a loss from continuing operations of approximately \$474,000 for the period from October 25, 2013 through December 31, 2013. Luxury Residential contributed approximately \$3,874,000 of revenue and a loss of approximately \$2,097,000 for the period from October 31, 2013 through December 31, 2013.

The accompanying unaudited pro forma information for the years ended December 31, 2013, 2012 and 2011 is presented as if the acquisition of (i) 1515 Market Street on February 1, 2013, (ii) Summit Pointe Apartments on October 25, 2013 and (iii) Luxury Residential on October 31, 2013, had occurred on January 1, 2012 and 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.

(In thousands, except for per share data)	For the year ended December 31,		
	2013	2012	2011
Total revenue	\$101,465	\$112,694	\$76,049
Income from continuing operations	8,890	10,610	8,299
Net income attributable to Winthrop Realty Trust	24,419	17,519	8,140
Per common share data - basic	0.72	0.53	0.23
Per common share data - diluted	0.72	0.53	0.23

**Amherst, New York** – During 2013 the Trust acquired four residential parcels adjacent to its Amherst, New York office property for an aggregate purchase price of \$896,000. The Trust is in the process of leveling the acquired parcels and expanding the parking area for the office property. Development of this property is expected to be completed during the second quarter of 2014. The total estimated cost to complete the development is \$1,625,000, of which \$482,000 has been incurred as of December 31, 2013.

**Houston, Texas – Non Controlling Interest** – During 2013 the Trust acquired two additional  $\frac{1}{4}$  limited partner units in 5400 Westheimer Holder LP (“Westheimer”) for an aggregate price of \$150,000. As a result of these transactions, the Trust now owns 32% of Westheimer.

**Churchill, Pennsylvania – financing** - On June 28, 2013 the Trust obtained a \$5,100,000 first mortgage on its Churchill, Pennsylvania property. The loan bears interest at a rate of 3.5% per annum, requires monthly payments of principal and interest and matures on August 1, 2024. After closing costs, the Trust received net proceeds of approximately \$4,922,000.

**Operating Property Activity through Equity Investments**

*WRT-Elad Lender/Equity (Sullivan Center) – loan modification, equity investment and refinancing* - On February 18, 2013, WRT-Elad One South State Lender LP (“Lender LP”), the entity in which the Trust held a 50% interest and which holds the mezzanine loan indirectly secured by the property located at One South State Street, Chicago, Illinois known as the Sullivan Center (“Sullivan Center”), entered into a forbearance agreement with the borrower (the “Sullivan Borrower”). WRT-Elad One South State Equity LP (“Equity LP”), a venture in which the Trust holds a 50% interest, held a 65% indirect future interest in Sullivan Borrower. Pursuant to the forbearance agreement, Lender LP agreed to forbear from exercising any remedies as a result of Sullivan Borrower’s failure to pay debt service for the period from December 2012 through October 2013. In exchange for the forbearance, Equity LP’s indirect future interest in Sullivan Borrower increased by 11% (5% in February 2013 and an additional 6% in November 2013) to 76%, with a corresponding decrease in Sullivan Borrower’s general partner’s interest.

On August 21, 2013 the Trust acquired the 50% joint venture interest (the “Elad Interest”) in Lender LP that was held by Elad for \$30,000,000 (“Acquisition Price”). The mezzanine loan had an outstanding balance of principal and accrued interest of approximately \$56,150,000 at the time the Elad Interest was acquired. Concurrently with the acquisition of the Elad Interest, the Trust entered into an option agreement (the “Elad Option”) which grants Elad the option, but not the obligation, to repurchase the Elad Interest in Lender LP for the Acquisition Price adjusted for the pro-rata portion of any accrued and unpaid interest and principal payments made by the borrower. Per the terms of the agreements, the Elad Interest and Elad Option cannot be transferred to parties other than the Trust and Elad. The term of the Elad Option corresponds with Lender LP’s mezzanine loan. Given the nature of the Elad Option and the specific rights of Elad, the transaction is accounted for as a secured financing arrangement under *ASC 860-Transfers and Servicing*. The Trust will recognize interest income on the secured financing receivable in accordance with GAAP, at an annual interest rate of 15%, and will continue to recognize equity income on its previously held 50% interest in the venture.

On October 18, 2013, Sullivan Center, which is wholly-owned by Sullivan Borrower, obtained a new \$113,500,000 first mortgage loan. The loan bears interest at a rate of 3.95% per annum, requires monthly payments of interest only and matures on November 6, 2018. The proceeds from the loan were used to repay the existing \$110,550,000 first mortgage loan which bore interest at a rate of 11.0% per annum.

*Atrium Mall LLC – Equity Investment* - On June 20, 2013 the Trust invested in a newly formed 50-50 joint venture with Marc Realty that acquired a non-performing \$10,650,000 mortgage loan for \$6,625,000. In addition, the joint venture paid \$1,137,000 to fund escrows at the closing. The Trust invested a total of \$3,935,000 in this joint venture during 2013. The loan was in maturity default at the time of acquisition and was acquired with the intention of foreclosing or working out a consensual assignment with the borrower. The loan was collateralized by a leasehold interest in the Atrium Mall in Chicago, Illinois. The leasehold interest is for 71,000 square feet of commercial/retail space that comprises the bottom three floors of an office building known as the James R. Thompson building of which the lease expires in September 2014 with six automatic five-year extensions which are exercisable at the lessee’s option. The building is owned by the State of Illinois.

On July 26, 2013 the joint venture entered into an agreement with the borrower pursuant to which the borrower conveyed the leasehold interest to the venture in lieu of foreclosure. Accordingly, the venture now holds the leasehold interest in the property. The conveyance of the leasehold interest does not change the ownership structure of Atrium Mall LLC or alter any of the members’ rights. The Trust will continue to account for its investment in Atrium Mall LLC under the equity method.

*701 Seventh Avenue, New York, New York – Equity Investment* – During 2013, with respect to the joint venture that indirectly owns the property located at 701 Seventh Avenue, New York, New York the Trust elected to participate in the future hotel development and during 2013, the Trust made additional cash contributions to the venture totaling \$24,465,000. The Trust has contributed an additional \$33,419,000 in 2014 bringing its total capital contributed to date to \$86,855,000 against its total commitment of \$125,000,000.

*WRT-Fenway Wateridge – Mortgage Loan* – On October 15, 2013, the Trust’s venture that holds this property obtained a \$7,000,000 first mortgage loan on its San Diego, California property. The loan bears interest at the greater of 6%, or LIBOR plus 4.5% per annum, requires monthly payments of interest only and matures on November 1, 2016. The venture purchased an interest rate cap which caps LIBOR at 2.5%. In connection with the financing, the Trust received a distribution of \$6,255,000 in partial redemption of its preferred equity investment. The Trust retains the balance of its preferred equity interest as well as a 50% equity interest in the venture.

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### Operating Property Disposition Activity

*Andover, Massachusetts - property sale* - On March 28, 2013 the Trust sold its Andover, Massachusetts office property to an independent third party for gross sale proceeds of \$12,000,000. After costs and pro-rations, the Trust received net proceeds of approximately \$11,425,000 and recorded a gain of \$2,775,000 on the sale of the property.

*Deer Valley, Arizona - property sale* - On June 11, 2013 the Trust sold its Deer Valley, Arizona office property to an independent third party for gross sale proceeds of \$20,500,000. After costs and pro-rations, the Trust received net proceeds of approximately \$19,585,000 and recorded a gain of \$6,745,000 on the sale of the property.

*Denton, Texas - property sale* - On July 2, 2013 the Trust sold its Denton, Texas retail property to an independent third party for gross sale proceeds of \$1,850,000. After costs and pro-rations, the Trust received net proceeds of approximately \$1,703,000. No gain or loss was recognized on the sale of the property.

*Seabrook, Texas - property sale* - On August 1, 2013 the Trust sold its Seabrook, Texas retail property to an independent third party for gross sale proceeds of \$3,300,000. After costs and pro-rations, the Trust received net proceeds of approximately \$3,202,000 and recorded a gain of \$1,428,000 on the sale of the property.

*Lisle, Illinois - property sale* - On December 17, 2013 the Trust sold its Lisle, Illinois office property known as 701 Arboretum to an independent third party for gross sale proceeds of \$2,500,000. After costs and pro-rations the Trust received net proceeds of approximately \$2,351,000 and recorded a gain of \$58,000 on the sale of the property.

### Operating Property Dispositions through Equity Investments

*Sealy Airpark - Nashville, Tennessee - foreclosure* - On October 7, 2013 the lender foreclosed on the loan that was collateralized by this property. The Trust held its interest in this property through a venture that was managed by its partner and had previously written down its investment to zero. Accordingly, for financial reporting purposes the Trust did not recognize a gain or loss in connection with the foreclosure.

*Sealy Newmarket - Atlanta, Georgia - foreclosure* - On December 2, 2013 the lender foreclosed on the loan that was collateralized by this property. The Trust held its interest in this property through a venture that was managed by its partner and had previously written down its investment to zero. Accordingly, for financial reporting purposes the Trust did not recognize a gain or loss in connection with the foreclosure.

### Operating Property Leasing Activity

*Amherst, New York* - On July 29, 2013 the Trust entered into a lease amendment with the existing tenant, Ingram Micro Inc., which leases the entire 200,000 square foot premises. The initial lease was signed in 1988 and was scheduled to expire October 31, 2013 (subject to two five-year extensions). The new lease extends the term through October 31, 2023 with one ten-year or two five-year renewal options. Lease payments under the amendment remained unchanged through the expiration of the original lease. Annual rents under the original lease were \$2,016,000. Annual rents under the amended lease are \$1,802,000 for the period November 1, 2013 through October 31, 2018 and \$2,002,000 for the period November 1, 2018 through October 31, 2023. The base rent is subject to increase upon the delivery of additional parking area to the tenant.

### Loans

#### Loan Asset Originations

*Playa Vista, California - loan origination* - On January 24, 2013 the Trust originated a \$20,500,000 mezzanine loan collateralized by a 260,000 square foot office campus in the Los Angeles, California area. The loan is subordinate to an \$80,300,000 mortgage loan, matures January 23, 2015, bears interest at LIBOR plus 14.25% per annum, with a 0.5% LIBOR floor and requires payments of interest only at a rate of 8.25% with the remaining interest being accrued and added to principal. In connection with the origination, the borrower paid the Trust an origination fee of \$205,000. On March 1, 2013 the Trust sold a 50% pari passu participation interest in the loan to an independent third party for \$10,250,000 and gave the transferee a credit of \$100,000 from the initial loan origination.

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### Loan Asset Repayment Activity

*Disney B Note – sale of participation* - On January 25, 2013 the Trust sold for \$9,000,000 a 100% participation interest in the \$10,000,000 B Note collateralized by an office building located in Burbank, California. The selling price was equal to the Trust's carrying value of the B Note.

*127 West 25<sup>th</sup> Street – loan payoff* - On March 1, 2013 the \$8,583,000 loan collateralized by the property located at 127 West 25th Street, New York, New York was paid off in full at par.

*180 N Michigan – loan payoff* - On March 28, 2013 the \$5,200,000 loan collateralized by the property located at 180 North Michigan Avenue, Chicago, Illinois was paid off in full at par.

*Fenway Shea – loan payoff* - On June 14, 2013 the \$2,250,000 loan collateralized by the property located at Shea Blvd in Phoenix, Arizona was paid off in full at par.

*Renaissance Walk – loan payoff* - On October 31, 2013 the \$3,000,000 loan collateralized by the property known as Renaissance Walk located in Atlanta, Georgia was paid off in full at par.

*Queensridge Tower – loan payments* - During 2013, several of the condominium units collateralizing the Queensridge Tower loan receivable were sold resulting in payments to the Trust of approximately \$35,863,000. The Trust made corresponding pay downs of \$23,770,000 in full satisfaction of its recourse debt with KeyBank which was collateralized by the Queensridge Tower loan receivable.

### Loan Asset Activity through Equity Investments

*RE CDO Management – asset sales* - On February 20, 2013, RE CDO Management ("RE CDO"), an entity in which the Trust holds a 50% interest, sold its subordinated interests in, and collateral management agreement with respect to, Sorin CDO III for \$2,750,000. On March 8, 2013 RE CDO sold its C Tranche subordinated interests in Sorin CDO IV for \$6,240,000. As a result of the sales, the Trust received distributions of approximately \$4,416,000 in the aggregate. The Trust's share of the gain has been recorded as equity in earnings of this equity investment. RE CDO had originally acquired the sold assets and its interest in Sorin CDO IV, which it still retains, for \$2,500,000.

*CDH CDO LLC – sale of interest* - On February 25, 2013 the Trust sold for \$25,000 a 17% interest in the equity of CDH CDO, exclusive of the interest in the entity that holds the collateral management agreement of CDH CDO, to Inland American. As a result of the sale, the Trust now holds a 49.67% interest in CDH CDO. The Trust maintains 100% of CDH CDO's interest in WRP Management. The sale of the interest did not affect the voting rights within CDH CDO and did not result in a change in control. The Trust will continue to account for its investment in CDH CDO under the equity method.

*10 Metrotech Loan LLC – equity investment repayment* - On July 30, 2013 the \$40,000,000 loan collateralized by the property at 10 Metrotech Center, Brooklyn, New York and held by a venture in which the Trust held a one-third interest was paid off at par. The venture had acquired the loan in August 2012 for \$32,500,000. As a result of the payoff, the Trust received a distribution from the venture of \$13,333,000 and recorded equity in earnings of \$2,676,000 in connection with its 33.33% ownership interest in the venture.

*Concord Debt Holdings and CDH CDO – loan payoffs* - Two of the underlying loans held by the Trust's Concord ventures paid off during the third quarter of 2013. In July 2013 the loan collateralized by the property commonly referred to as Thanksgiving Tower located in Dallas, Texas was satisfied. In August 2013 the loan collateralized by the property referred to as One Riverwalk located in San Antonio, Texas was satisfied. As a result of the loan payoffs the Trust received an aggregate distribution of \$6,470,000.

### REIT Securities Activity

During 2013 the Trust liquidated all of its holdings of REIT Securities. In particular, the Trust sold 3,000,716 shares of common stock in Cedar Realty Trust, Inc. which it had acquired for an aggregate cost of \$12,891,000 for aggregate sales proceeds of \$16,292,000. The Trust also sold 1,250,000 of MPG Office Trust, Inc., which it had acquired for an aggregate cost of \$2,980,000, for aggregate proceeds of \$3,626,000.

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### 5. Loans Receivable

The Trust's loans receivable at December 31, 2013 and 2012 are as follows (in thousands):

Description	Loan Position	Stated Interest Rate	Carrying Amount		Contractual Maturity Date
			December 31, 2013	December 31, 2012	
Hotel Wales (5)	Whole Loan	LIBOR + 4.0% (2)	\$ 20,101	\$ 20,101	10/05/14
The Shops at Wailea	B-Note	6.15%	6,292	5,376	10/06/14
Legacy Orchard (1) (5)	Corporate Loan	15.0%	9,750	9,750	10/31/14
Queensridge (6)	Whole Loan	LIBOR + 11.5% (3)	2,942	39,170	11/15/14
San Marbeya (5)	Whole Loan	5.88%	28,546	27,149	01/01/15
Churchill (1)	Whole Loan	LIBOR + 3.75%	683	683	06/01/15
1515 Market	Whole Loan	(4)	—	58,650	(4)
Playa Vista / Water's Edge	Mezzanine	LIBOR + 14.25% (3)	10,327	—	01/23/15
Rockwell (7)	Mezzanine	12.0%	—	323	05/01/16
500-512 7th Ave (5)	B-Note	7.19%	10,250	10,009	07/11/16
Pinnacle II	B-Note	6.31%	4,648	4,652	09/06/16
Popiu Shopping Village	B-Note	6.62%	2,058	1,948	01/06/17
Wellington Tower (5)	Mezzanine	6.79%	2,991	2,687	07/11/17
Mentor Building	Whole Loan	10.0%	2,512	2,512	09/10/17
Renaissance Walk (8)	Mezzanine	—	—	3,000	—
Fenway Shea (1) (8)	Whole Loan	—	—	2,273	—
127 West 25th Street (8)	Mezzanine	—	—	8,687	—
180 N. Michigan (8)	Mezzanine	—	—	5,237	—
The Disney Building (9)	B-Note	—	—	9,043	—
			<u>\$ 101,100</u>	<u>\$ 211,250</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 0.5%.
- (4) This loan was in maturity default at the time of acquisition. The loan was modified on February 1, 2013. The Trust consolidates the operations of the borrower entity and the loan receivable is eliminated in consolidation.
- (5) These loans were sold to an independent third party in February 2014. See Note 26 - Subsequent Events for details on the sale.
- (6) This loan was paid off at par in January 2014. See Note 26 - Subsequent Events for details on the payoff.
- (7) Loan defaulted in December 2013. Carrying amount at December 31, 2013 reflects a \$348 loan loss reserve.
- (8) The loans were satisfied during the year ended December 31, 2013.
- (9) Loan was sold during 2013.

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The carrying amount of loans receivable includes accrued interest of \$501,000 and \$1,016,000 at December 31, 2013 and December 31, 2012, respectively, and cumulative accretion of \$6,488,000 and \$2,527,000 at December 31, 2013 and December 31, 2012, respectively.

At December 31, 2013, the Trust's loan receivables have accretable discount yet to be recognized as income totaling \$5,782,000. At December 31, 2012, the Trust's loan receivables had accretable discount yet to be recognized as income totaling \$9,865,000.

The weighted average coupon on the Trust's loans receivable was 6.55% and the weighted average yield to maturity was 11.59% at December 31, 2013. The weighted average coupon on the Trust's 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 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. As of September 30, 2013 the Trust has fully repaid the recourse secured financing.

### Loan Receivable Activity

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Balance at beginning of year	\$ 211,250	\$ 114,333
Purchase and advances	22,314	175,550
Interest (received) accrued, net	(514)	516
Repayments / sale proceeds	(75,407)	(68,824)
Elimination of 1515 Market Street in consolidation	(60,279)	—
Loan accretion	4,121	8,333
Discount accretion received in cash	(37)	(15,720)
Provision for loss on loans receivable	(348)	—
Conversion of 180 North Michigan loan to equity investments	—	(2,938)
Balance at end of year	<u>\$ 101,100</u>	<u>\$ 211,250</u>

The following table summarizes the Trust's interest and dividend income for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Interest and dividends detail:			
Interest on loan assets	\$14,334	\$11,736	\$11,073
Accretion of loan discount	4,121	8,333	13,401
Interest and dividends on REIT securities	—	1,054	984
Total interest and dividends	<u>\$18,455</u>	<u>\$21,123</u>	<u>\$25,458</u>

The San Marbeya loan and the Queensridge loan, each representing more than 10% of interest income, contributed approximately 34% of interest income of the Trust for the year ended December 31, 2013.

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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.

### *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, 2013 (in thousands, except for number of loans).

<u>Internal Credit Quality</u>	<u># of Loans</u>	<u>Carrying Value of Loans Receivable</u>	<u># of Loans</u>	<u>Whole Loans</u>	<u># of Loans</u>	<u>B-Notes</u>	<u># of Loans</u>	<u>Mezzanine Loans</u>
Greater than zero	11	\$ 90,773	6	\$64,534	4	\$23,248	1	\$ 2,991
Equal to zero	1	10,327	—	—	—	—	1	10,327
Less than zero	1	—	—	—	—	—	1	—
Subtotal	<u>13</u>	<u>\$101,100</u>	<u>6</u>	<u>\$64,534</u>	<u>4</u>	<u>\$23,248</u>	<u>3</u>	<u>\$ 13,318</u>

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

<u>Internal Credit Quality</u>	<u># of Loans</u>	<u>Carrying Value of Loans Receivable</u>	<u># of Loans</u>	<u>Whole Loans</u>	<u># of Loans</u>	<u>B-Notes</u>	<u># of Loans</u>	<u>Mezzanine Loans</u>
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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### *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, 2013 there was one non-performing loan with past due payments. There was \$348,000 of provision for loan loss recorded during the years ended December 31, 2013.

As of December 31, 2012 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 and 2011.

### Secured Financing Receivable

In August 2013 the Trust closed on an agreement to acquire Elad's 50% interest in Lender LP for \$30,000,000. In connection with the transaction, the Trust entered into an option agreement with Elad granting Elad the right, but not obligation, to repurchase the interest in the venture. The option agreement provides Elad, as the transferor, the option to unilaterally cause the return of the asset at the earlier of two years from August 21, 2013 or an event of default on Lender LP's mezzanine debt. As such, Elad is able to retain control of its interest in Lender LP for financial reporting purposes as the exercise of the option is unconditional other than for the passage of time. As a result, for financial reporting purposes, the transfer of the financial asset is accounted for as a secured financing rather than an acquisition. The \$30,000,000 acquisition price is recorded as a secured financing receivable. The Trust will recognize interest income on the secured financing receivable on an accrual basis in accordance with GAAP, at an annual interest rate of 15%. The Trust recorded \$1,386,000 of interest income during the year ended December 31, 2013.

## 6. Securities and Loan Securities Carried at Fair Value

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

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
REIT Common shares	\$—	\$ —	\$15,876	\$ 19,694
	<u>\$—</u>	<u>\$ —</u>	<u>\$15,876</u>	<u>\$ 19,694</u>
Loan securities	\$161	\$ 226	\$ 161	\$ 11
	<u>\$161</u>	<u>\$ 226</u>	<u>\$16,037</u>	<u>\$ 19,705</u>

During the years ended December 31, 2013, 2012 and 2011 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 \$19,918,000, \$28,133,000 and \$35,156,000, respectively. The gross realized gains on these sales and payoffs totaled approximately \$742,000, \$655,000 and \$123,000 in 2013, 2012 and 2011, respectively. For purpose of determining gross realized gains, the cost of securities is based on specific identification.

For the years ended December 31, 2013, 2012 and 2011, the Trust recognized net unrealized gains on available for sale securities, securities carried at fair value and loan securities carried at fair value of \$73,000, \$7,363,000 and \$5,526,000, 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. During 2013, the Trust received distributions, inclusive of its preferred return, totaling \$6,378,000. The Trust still holds a \$229,000 preferred equity investment at December 31, 2013.



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During 2012 the Trust made preferred equity contributions of \$4,750,000 to its Vintage Housing venture which entitles the Trust to a 12% return.

During 2012 the Trust converted its \$1,500,000 loan 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 2013, 2012 or 2011 on this investment.

The Trust recognized earnings from its Marc Realty preferred equity investments of \$338,000 for the year ended December 31, 2011. 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.

## 8. Equity Investments

The Trust's equity investments consist of the following at December 31, 2013 and December 31, 2012 (in thousands):

Venture Partner	Equity Investment	Nominal % Ownership at December 31, 2013	December 31, 2013	December 31, 2012
Gancar Trust (1)	Vintage Housing Holdings LLC	75.0%	\$ 34,153	\$ 30,534
Elad Canada Ltd	WRT-Elad One South State Equity LP	50.0%	—	460
Elad Canada Ltd	WRT-One South State Lender LP	50.0%	23,661	24,644
Mack-Cali	WRT-Stamford LLC	20.0%	9,064	8,501
Atrium/Northstar	10 Metrotech Loan LLC	33.3%	11	10,845
Atrium Holding	RE CDO Management LLC	50.0%	992	1,779
Freed	Mentor Retail LLC	49.9%	635	551
Inland/Lexington	Concord Debt Holdings LLC	33.3%	—	—
Inland/Lexington	CDH CDO LLC	24.8%	—	—
Inland (2)	Concord Debt Holdings LLC	33.3%	966	3,974
Inland (2)	CDH CDO LLC	24.8%	4,215	322
Sealy (1)	Northwest Atlanta Partners LP	60.0%	7,635	8,104
Sealy (1)	Newmarket GP LLC	68.0%	—	—
Sealy (1)	Airpark Nashville GP	50.0%	—	—
Marc Realty (1)	Brooks Building LLC	50.0%	6,551	7,983
Marc Realty (1)	High Point Plaza LLC	50.0%	—	2,241
Marc Realty (1)	1701 Woodfield LLC	50.0%	150	1,977
Marc Realty (1)	Enterprise Center LLC	50.0%	50	2,679
Marc Realty (1)	Atrium Mall	50.0%	3,845	—
ROIC	WRT-ROIC Lakeside Eagle LLC	50.0%	—	—
New Valley/Starwood (3)	Socal Office Portfolio Loan LLC	73.0%	—	8
New Valley/Witkoff	701 7th WRT Investors LLC	70.5%	55,259	28,735
Fenway	WRT-Fenway Wateridge LLC	50.0%	1,898	1,522
			<u>\$ 149,085</u>	<u>\$ 134,859</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) Represents the interests acquired from Lexington Realty Trust on May 1, 2012.
- (3) The underlying loan investment 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, 2013 (in thousands):

Investment	Balance at December 31, 2012	Contributions	Equity Income (loss)	Distributions	Sales Price	Balance at December 31, 2013
Vintage Housing Holdings, LLC (2)	\$ 30,534	\$ —	\$ 9,174	\$ (5,555)	\$ —	\$ 34,153
WRT-Elad One South State Equity LP (2)	460	2,358	(2,818)	—	—	—
WRT-One South State Lender LP (2)	24,644	—	4,133	(5,116)	—	23,661
WRT-Stamford LLC	8,501	—	930	(367)	—	9,064
10 Metrotech Loan LLC	10,845	—	3,284	(14,118)	—	11
RE CDO Management LLC	1,779	—	3,709	(4,496)	—	992
Concord Debt Holdings LLC	—	—	3,072	(3,072)	—	—
CDH CDO LLC	—	—	1,033	(1,020)	(13)	—
Concord Debt Holdings LLC (1)	3,974	—	64	(3,072)	—	966
CDH CDO LLC (1)	322	—	4,926	(1,020)	(13)	4,215
Mentor Retail LLC	551	—	84	—	—	635
701 7th WRT Investors LLC (3)	28,735	25,913	3,424	(2,813)	—	55,259
WRT-Fenway Wateridge LLC (2)	1,522	193	183	—	—	1,898
Sealy	8,104	—	(469)	—	—	7,635
Marc Realty	14,880	—	(7,971)	(158)	—	6,751
WRT-ROIC Lakeside Eagle LLC	—	25	(25)	—	—	—
SoCal Office Portfolio Loan LLC	8	—	(2)	(6)	—	—
Atrium Mall	—	3,935	(90)	—	—	3,845
<b>Total</b>	<b>\$ 134,859</b>	<b>\$ 32,424</b>	<b>\$22,641</b>	<b>\$ (40,813)</b>	<b>\$ (26)</b>	<b>\$ 149,085</b>

- (1) Represents the interests acquired from Lexington Realty Trust on May 1, 2012.
- (2) The Trust has elected to report its share of earnings on a one month lag period.
- (3) The Trust has elected to report its share of earnings on a three month lag.

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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 Holdings LLC (2)	\$ 29,887	\$ 2,067	\$ 4,603	\$ (6,023)	\$ —	\$ 30,534
WRT-Elad One South State Equity LP (2)	—	2,838	(2,378)	—	—	460
WRT-One South State Lender LP (2)	10,150	11,213	3,281	—	—	24,644
WRT-Stamford LLC	—	8,036	769	(304)	—	8,501
10 Metrotech Loan 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 (3)	—	29,025	—	(290)	—	28,735
WRT-Fenway Wateridge LLC (2)	—	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)	2,032	8
FII Co-invest LLC	1,800	—	232	—	—	—
Concord Debt Holdings (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.
- (2) The Trust has elected to report its share of earnings on a one month lag period.
- (3) The Trust has elected to report its share of earnings on a three month lag period.

See Note 4 for information relating to 2013 activity with respect to equity investments.

*Sullivan Center* - There is a basis differential of \$11,196,000 between the Trust's carrying value of its investments in Sullivan Center and the basis reflected at the joint venture level, which is amortized over the life of the related assets. The basis differential primarily relates to a bargain purchase gain recognized at the joint venture level upon acquisition.

*Concord* - During the years ended December 31, 2013 and 2012, the Trust received cash distributions from Concord Debt Holdings LLC of \$3,072,000 and \$422,000, respectively. The Trust recognized equity income for the full amount of the distributions. The Trust has suspended losses of \$40,493,000 to offset against future equity income from Concord at December 31, 2013.

During the years ended December 31, 2013 and 2012, the Trust received cash distributions from CDH CDO LLC of \$1,020,000 and \$1,715,000, respectively. The Trust recognized equity income for the full amount of the distribution. The Trust has suspended losses of \$19,605,000 to offset against future equity income from CDH CDO LLC at December 31, 2013.

*Sealy* - On May 30, 2013 the Trust contributed its interest in Newmarket GP and its interest in Airpark Nashville GP to TRS. The Trust's carrying value of both investments was zero at the time of the contributions and the transaction had no effect on the financial statements of the Trust. On October 7, 2013 the lender foreclosed on the loan that was collateralized by Sealy Airpark Property. On December 2, 2013 the lender foreclosed on the loan that was collateralized by the Sealy Newmarket Property. These transactions had no effect on the financial statements of 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 comparable 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 Trust's future results of operations.

*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.

**Marc Realty Impairments**

During the fourth quarter of 2013, the Trust's equity investments in the Brooks Building, LLC ("223 West Jackson"), High Point Plaza, LLC ("High Point"), 1701 Woodfield, LLC ("1701 Woodfield"), and Enterprise Center, LLC (individually "Enterprise" and the aforementioned investments collectively the "Marc Investments") suffered declines in occupancy, increasing competition for tenants, and increasing costs to operate the investments. Additionally, recent discussions related to marketing available space to potential tenants, along with lease renewals with existing tenants, indicated a capital infusion from the Trust would be necessary to upgrade the investments to achieve rental rates in-line with the suburban Chicago, Illinois office market. The factors above along with increasing capital demands and rising cost of capital caused the Trust to reassess its business plan associated with the Marc Investments in the fourth quarter of 2013.

Subsequent to year end the Trust entered into an agreement with Marc Realty, its joint venture partner in these equity investments, to sell its interests in High Point, 1701 Woodfield, Enterprise Center along with its controlling interest in the River City property, located in Chicago, Illinois, which is consolidated, for a gross sales price of \$6,000,000. The Trust considered the underlying investment characteristics and negotiations with Marc Realty in allocating the purchase price to the specific assets included in the transaction. Additionally, the Trust granted Marc Realty an option exercisable within two years to acquire its interest in 223 West Jackson for a purchase price ranging from \$5,000,000 to \$6,600,000. The purchase price for 223 West Jackson is dependent upon when the option is exercised and certain operating characteristics of the investment at the time of exercise.

Based on the factors noted above, the Trust concluded that each of the Marc Investments were other-than-temporarily impaired in the aggregate by \$7,687,000 at December 31, 2013, when comparing each of their carrying values of \$14,438,000 in the aggregate to each of their fair values of \$6,751,000 in the aggregate and a corresponding impairment charge has been included in Equity in income (loss) of equity investments in the Consolidated Statement of Operations and Comprehensive Income (Loss) for the year then ended. The Trust separately tested the River City property for impairment and determined that the carrying value of River City was recoverable at December 31, 2013 when comparing the portion of the gross sales price attributable to the River City property to its carrying value.

*SoCal Office Portfolio Loan* – On September 28, 2012, the loan held by SoCal Office Portfolio Loan ("SoCal") was paid off at par. The Trust's joint venture WRT-SoCal Lender LLC ("SoCal Lender") which held the equity investment on SoCal received

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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. Remaining funds were utilized to wind up and dissolve SoCal in 2013.

*Vintage Housing Holdings LLC* - 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.

*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.

### 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:

<u>Entity</u>	<u>Year(s) determined significant</u>	<u>Exhibit</u>
Concord Debt Holdings LLC	2011	99.1
CDH CDO LLC	2013	99.2
Sealy Northwest Atlanta Partners LP	2011	99.3
Sealy Newmarket General Partnership	2011	99.4

### Combined Financial Statements for Unconsolidated Subsidiaries

Pursuant to Rule 4-08(g), the following summarized financial data for unconsolidated subsidiaries includes information for the following entities: Vintage Housing Holdings, LLC, WRT-Elad One South State Equity LP, WRT-Stamford LLC, 10 Metrotech Loan LLC, Mentor Retail LLC, 701 Seventh WRT Investors LLC, WRT-Fenway Wateridge LLC, Brooks Building LLC, High Point Plaza LLC, 1701 Woodfield LLC, Enterprise Center LLC, Atrium Mall LLC and WRT-ROIC Lakeside Eagle LLC.

	<u>For the Year Ended</u> <u>December 31, 2013</u>	<u>For the Year Ended</u> <u>December 31, 2012</u>	<u>For the Year Ended</u> <u>December 31, 2011</u>
<b>Income Statements</b>			
Rental Revenue	57,890	70,686	54,600
Interest, dividends and discount accretion	14,538	6,513	3,745
Expenses	43,672	68,286	59,190
Income from continuing operations	28,756	8,913	(845)
Trust's share of net income	16,679	6,472	(35)
		<u>As of December 31,</u> <u>2013</u>	<u>As of December 31,</u> <u>2012</u>
<b>Balance Sheets</b>			
Investment in real estate		913,894	542,124
Total assets		1,022,352	631,481
Total debt		734,856	401,040
Total liabilities		799,949	463,218
Non controlling interests		34,071	15,997
Trust share of equity		119,304	65,311

The Trust was granted a waiver of the requirements to provide S-X 3-09 financial statements for its equity method joint venture investee WRT – One South State Lender LP ("Lender LP") by the U.S. Securities and Exchange Commission. Lender LP met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X for 2013 solely due to the transaction as discussed in Note 4.

Lender LP holds a single loan receivable with a face amount of \$51,716,000 at December 31, 2013. The loan bears interest at a rate of 15% per annum, requires payments of interest only and matures December 2017. The loan was acquired at a discount to face and the discount is being accreted into income over the life of the loan.

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

	December 31	
	2013	2012
<b>Assets</b>		
Loan Receivable	\$42,173	\$41,519
Other assets, net	5,028	7,784
Total Assets	<u>\$47,201</u>	<u>\$49,303</u>
<b>Liabilities and Equity</b>		
Accounts payable and accrued expenses	\$ 23	\$ 427
Other liabilities	—	—
Total Liabilities	<u>23</u>	<u>427</u>
Equity	<u>47,178</u>	<u>48,876</u>
Total Liabilities and Equity	<u>\$47,201</u>	<u>\$49,303</u>

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

	Year Ended December 31		
	2013	2012	2011 (1)
<b>Revenue</b>			
Interest Income	\$8,506	\$7,378	\$ —
Management Fee Income	—	—	—
	<u>8,506</u>	<u>7,378</u>	<u>—</u>
<b>Expenses</b>			
General and Administrative	86	127	—
Other expenses	—	—	—
	<u>86</u>	<u>127</u>	<u>—</u>
<b>Other Income and Expense</b>			
Other Income	—	—	—
Net Income	<u>\$8,420</u>	<u>\$7,251</u>	<u>\$ —</u>

Statement of Cash Flows (in thousands)

	Year Ended December 31		
	2013	2012	2011 (1)
Net cash provided by (used in) operating activities	\$ 879	\$ 4,967	\$ —
Net cash provided by (used in) investment	\$ —	\$(21,369)	\$(20,150)
Net cash provided by (used in) financing activities	\$(5,952)	\$ 21,475	\$ 20,150
Cash and cash equivalents, end of year	\$ —	\$ 5,073	\$ —
Non cash investing and financing activity			
Distribution to partners	\$(4,166)	\$ —	\$ —

(1) The year ended December 31, 2011 represents the period December 23, 2011 through December 31, 2011, the period of our ownership.

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The Trust was granted a waiver of the requirements to provide S-X 3-09 financial statements for its equity method joint venture investee RE CDO Management LLC ("RE CDO") by the U.S. Securities and Exchange Commission. RE CDO met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X for 2013 solely due to the transactions as discussed in Note 4.

RE CDO holds 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 \$21,227,000 at December 31, 2013, and (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 \$30,401,000 at December 31, 2013. The interest in the loan was acquired for \$1,093,000 and RE CDO accounts for this investment on the cost recovery method.

RE CDO also holds the collateral management agreement for a collateralized debt obligation entity that holds loans and loan securities.

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

	December 31	
	2013	2012
<b>Assets</b>		
Loan Receivable	\$1,033	\$1,070
Other assets, net	965	2,523
Total Assets	<u>\$1,998</u>	<u>\$3,593</u>
<b>Liabilities and Equity</b>		
Accounts payable and accrued expenses	\$ 16	\$ 36
Other liabilities	—	—
Total Liabilities	16	36
Equity	<u>1,982</u>	<u>3,557</u>
Total Liabilities and Equity	<u>\$1,998</u>	<u>\$3,593</u>

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

	Year Ended December 31		
	2013	2012	2011 (1)
<b>Revenue</b>			
Management Fee Income	\$ 226	\$618	\$ 324
Interest Income	—	—	—
	<u>226</u>	<u>618</u>	<u>324</u>
<b>Expenses</b>			
General and Administrative	290	354	164
Other expenses	1,459	129	67
	<u>1,749</u>	<u>483</u>	<u>231</u>
<b>Other Income and Expense</b>			
Gain on sale of assets	8,940	—	—
Net Income	<u>\$7,417</u>	<u>\$135</u>	<u>\$ 93</u>

Statement of Cash Flows (in thousands)

	Year Ended December 31		
	2013	2012	2011 (1)
Net cash provided by (used in) operating activities	\$ (7)	\$ 292	\$ 119
Net cash provided by (used in) investment	\$ 8,940	\$ (1,093)	\$ (2,525)
Net cash provided by (used in) financing activities	\$ (8,993)	\$ 830	\$ 2,500
Cash and cash equivalents, end of year	\$ 63	\$ 123	\$ 94

(1) The year ended December 31, 2011 represents the period from June 28, 2011 through December 31, 2011, the period of our ownership.

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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 was dissolved in 2013.

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

	December 31, 2012
<b>ASSETS</b>	
Cash and cash equivalents	\$ 11
Real estate debt investments	—
Receivables and other assets	2
<b>Total Assets</b>	<b>\$ 13</b>
<b>LIABILITIES AND MEMBERS' CAPITAL</b>	
Other current liabilities	\$ —
Members' Capital	13
<b>Total Liabilities and Members' Capital</b>	<b>\$ 13</b>
Carrying value of the Trust's investments in the equity investments	\$ 8

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

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



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### 9. Lease Intangibles

Lease intangibles consisted of the following at December 31, 2013 and 2012 (in thousands):

	December 31, 2013	December 31, 2012
Lease intangibles	\$ 75,753	\$ 65,224
Less: Accumulated amortization	(25,887)	(27,480)
Lease intangibles, net	<u>\$ 49,866</u>	<u>\$ 37,744</u>
Below market leases	\$ 4,159	\$ 7,808
Less: Accumulated amortization	(1,760)	(5,553)
Below market leases, net	<u>\$ 2,399</u>	<u>\$ 2,255</u>

Amortization related to deferred leasing costs over the next five years is as follows (in thousands):

	Estimated Net Amortization of In-Place Leases, Leasing Commissions and Tenant Relationships	Net Decrease (Increase) to Rental Income Related to Above and Below Market Leases
2014	\$ 8,956	\$ 34
2015	6,776	369
2016	6,625	402
2017	6,390	464
2018	4,550	452

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### 10. Debt

#### Mortgage Loans Payable

The Trust had outstanding mortgage loans payable of \$444,933,000 and \$280,576,000 at December 31, 2013 and 2012, 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, 2013 and 2012 are summarized as follows (in thousands):

<u>Location of Collateral</u>	<u>Maturity</u>	<u>Spread Over LIBOR/Prime (1)</u>	<u>Interest Rate at December 31, 2013</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Memphis, TN	Aug 2014	Libor + 2.5% (2)	3.00%	\$ 13,125	\$ 13,408
Lisle, IL (3)	Oct 2014	Libor + 2.5% (4)	2.67%	5,752	5,752
Chicago, IL	Apr 2015	—	5.50%	8,579	8,700
Chicago, IL	Mar 2016	—	5.75%	19,856	20,200
Houston, TX	Apr 2016	—	6.01%	47,201	52,052
New York, NY	May 2016	Libor + 2.5% (5)	3.50%	51,950	51,982
Philadelphia, PA	May 2016	Libor + 2.0% (6)	2.50%	42,440	—
Greensboro, NC	Aug 2016	—	6.22%	14,735	15,139
Phoenix, AZ	Oct 2016	Libor + 2.0% (7)	2.69%	24,390	—
San Pedro, CA	Oct 2016	Libor + 2.0% (7)	2.69%	12,195	—
Stamford, CT	Oct 2016	Libor + 2.0% (7)	2.69%	48,780	—
Houston, TX	Oct 2016	Libor + 2.0% (7)	2.69%	64,635	—
Cerritos, CA	Jan 2017	—	5.07%	23,142	23,184
Lisle, IL	Mar 2017	—	5.55%	5,470	5,543
Orlando, FL	Jul 2017	—	6.40%	36,983	37,580
Plantation, FL	Apr 2018	—	6.48%	10,684	10,811
Oklahoma City, OK	Feb 2021	—	5.70%	9,967	—
Meriden, CT (8)	Oct 2022	—	3.95%	—	21,000
Churchill, PA	Aug 2024	—	3.50%	5,049	—
Amherst, NY (9)	N/A	—	N/A	—	15,225
				<u>\$ 444,933</u>	<u>\$ 280,576</u>

(1) The one-month LIBOR rate at December 31, 2013 was 0.1677%. The one-month LIBOR rate at December 31, 2012 was 0.2087%.

(2) The loan has a LIBOR floor of 0.5% and an interest rate cap which caps LIBOR at 0.5%.

(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) The loan has an interest rate cap which caps LIBOR at 1%.

(5) The loan has a LIBOR floor of 1% and an interest rate cap which caps LIBOR at 1.75% through May 15, 2014.

(6) The loan has an interest rate swap which effectively fixes LIBOR at 0.5%.

(7) The loan has an interest rate swap which effectively fixes LIBOR at 0.69%.

(8) The loan is classified as liabilities of assets held for sale at December 31, 2013.

(9) The loan was fully satisfied on July 26, 2013.

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### Non-Recourse Secured Financings

The Trust's non-recourse secured financings at December 31, 2013 and December 31, 2012 are summarized as follows (in thousands):

<u>Collateral</u>	<u>Maturity</u>	<u>Spread Over LIBOR/Prime</u>	<u>Interest Rate at December 31, 2013</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Hotel Wales Loan	Oct 2014	LIBOR plus 1.25% (1)	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%.

### 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, 2013 and 2012, the recourse secured financing has a carrying value of \$0 and \$23,770,000, respectively, bears interest at a rate of LIBOR plus 4.0% and matures on November 15, 2014.

### 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, 2013 and 2012, the carrying value of the participating B Note was \$942,000 and \$876,000, respectively, 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, 5400 Westheimer LP, 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 and the corresponding interest expense is eliminated for accounting purposes. The balance of the note as of December 31, 2013 and 2012 was \$800,000 which approximates fair value.

## **11. 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 has elected not to exercise its option to extend. 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, 2013 and 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 at December 31, 2013 and 2012. The Trust is required to pay a commitment fee on the unused portion of the line, which amounted to approximately \$175,000 and \$150,000 for years ended December 31, 2013 and 2012, respectively.

## 12. 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 Senior 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 Senior 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 restrictions and requirements, including a consolidated leverage ratio of 60%, covenants to preserve corporate existence and comply with laws, and default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, and non-performance of covenants. At December 31, 2013 and 2012, the Trust was in compliance with all restrictions and requirements.

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, 2013 (in thousands):

<u>Year</u>	<u>Amount</u>
2014	\$ 40,898
2015	32,070
2016	312,240
2017	63,646
2018	10,416
Thereafter	99,845
	<u>\$559,115</u>

## 13. 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 derivative financial instruments are classified as other assets on the balance sheet.

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, 2013, 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 \$(74,000) and \$42,000 of comprehensive (loss) income for the years ended December 31, 2013 and December 31, 2012, respectively. The Trust did not record any hedge ineffectiveness during the years ended December 31, 2013 and 2012.

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The table below presents information about the Trust's interest rate caps and swaps that are included on the consolidated balance sheet that were designated as cash flow hedges of interest rate risk at December 31, 2013 (dollars in thousands):

Maturity	Strike Rate	Notional Amount of Hedge	Cost of Hedge	Estimated Fair Value of Hedge	Change in Hedge Valuations Included in Other Comprehensive Income for the Year Ended December 31, 2013
Aug 2014	0.5%	\$ 13,408	\$ 22	\$ (4)	\$ (4)
May 2016	0.5%	42,440	—	\$ (33)	(33)
Oct 2016	0.69%	150,000	—	\$ (86)	(86)
Nov 2017	4.00%	50,000	165	\$ 186	21
Nov 2018	5.00%	50,000	220	\$ 248	28

The table below presents information about the Trust's interest rate caps and swaps that were not designated as cash flow hedges at December 31, 2013 (in thousands):

Maturity	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, 2013
Oct 2014	1.00%	\$ 5,753	\$ 174	\$ —	\$ 1
May 2013	1.25%	—	196	—	—
May 2014	1.75%	51,982	434	—	—

## 14. 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.

*Houston, Texas Operating Property* – During the first quarter of 2013, a wholly-owned subsidiary of the Trust acquired a quarter-unit limited partner interest, representing 1% of Westheimer, for a purchase price of \$75,000. The Trust accounted for this purchase as an equity transaction recording the difference in the \$127,000 carrying value of the acquired non-controlling interest and the purchase price as a \$52,000 increase in paid-in capital. During the second quarter of 2013, the wholly-owned subsidiary acquired an additional 1% interest in Westheimer for a purchase price of \$75,000. The Trust accounted for this purchase as an equity transaction recording the difference in the \$126,000 carrying value of the acquired non-controlling interest and the purchase price as a \$51,000 increase in paid-in capital.

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 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.

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As of December 31, 2013 the Trust owns 32% of Westheimer.

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

	2013	For the Years Ended December 31, 2012	2011
Net income attributable to Winthrop Realty Trust	\$28,778	\$ 24,631	\$10,933
Decrease in Winthrop Realty Trust paid in capital adjustments from non-controlling interests	103	(4,533)	—
Changes from net income attributable to Winthrop Realty Trust and transfers from non-controlling interests	<u>\$28,881</u>	<u>\$ 20,098</u>	<u>\$10,933</u>

## 15. Common Shares

The following table sets forth information relating to sales of Common Shares during the years ended December 31, 2009, 2010, 2011, 2012 and 2013:

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
January 13, 2013	10,142	\$ 11.30	DRIP
April 17, 2013	9,904	\$ 12.09	DRIP
July 16, 2013	9,192	\$ 12.96	DRIP
September 26, 2013	2,750,000	\$ 11.45 (3)	Public Offering
October 16, 2013	10,069	\$ 10.97	DRIP
November 11, 2013	920	\$ 11.69	Option Exercised

(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.

**16. 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. In May 2013 the Trust's shareholders approved an amendment to the 2007 Plan increasing the number of shares issuable under the plan to 1,000,000. During 2013 the Trust 600,000 Restricted Shares pursuant to the plan amendment. There are 400,000 Common Shares reserved for issuance under the 2007 Plan as of December 31, 2013. No stock options 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 had an exercise price of \$11.15 and expired on December 16, 2013. The options were exercised on November 11, 2013 and 920 Common Shares were issued. There were no other options granted, cancelled or expired and in March 2005 the plan terminated.

**17. Discontinued Operations**

The Trust's properties in Deer Valley, Arizona; Meriden, Connecticut; Lisle, Illinois; Indianapolis, Indiana; Lafayette, Louisiana; Andover, Massachusetts; St. Louis, Missouri; Knoxville, Tennessee; Memphis, Tennessee; Denton, Texas; and Seabrook, Texas are classified as discontinued operations.

The Knoxville, Tennessee location was classified as discontinued operations as of September 30, 2010. In August 2011 the Trust sold its Knoxville, Tennessee property for net proceeds of \$2,151,000 and recorded a \$58,000 loss of the sale of the property.

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, and in December 2011 the property was sold for net proceeds of \$1,485,000. The Trust recorded a \$450,000 gain on the sale of the property.

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 \$1,071,000 after satisfaction of the debt. The Trust recorded a \$945,000 gain on the sale of the property. The Memphis, Tennessee property was sold on September 28, 2012, 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.

In March 2013 the Andover, Massachusetts property was classified as discontinued operations and sold. The property was sold for net proceeds of \$11,538,000 and the Trust recorded a \$2,775,000 gain on the sale of the property.

In June 2013 the Deer Valley, Arizona and Denton, Texas properties were classified as discontinued operations. The Deer Valley, Arizona property was sold in June 2013 for net proceeds of \$19,585,000 and the Trust recorded a \$6,745,000 gain on the sale of the property.

The Trust recorded an \$824,000 impairment charge on the Denton, Texas property in 2012 as a result of a change to the anticipated holding period of this property. The Trust recorded an additional \$154,000 impairment charge for this property in June 2013 as a result of the purchase contract. The property was sold in July 2013 and the Trust received net proceeds of \$1,703,000.

In August 2013, the Seabrook, Texas property was classified as discontinued operations. The property was sold in August 2013 for net proceeds of \$3,202,000 and the Trust recorded a \$1,428,000 gain on the sale of the property.

In September 2013, the Trust's 701 Arboretum property located in Lisle, Illinois was classified as discontinued operations. The Trust had previously recorded a \$3,000,000 impairment charge on this property in 2011 as a result of continued declines in occupancy. The Trust recorded an additional \$2,750,000 impairment charge in 2013 as a result of the purchase contract. The property was sold in December 2013 for net proceeds of \$2,351,000 and the Trust recorded a \$58,000 gain on the sale.

The Meriden, Connecticut property was classified as discontinued operations as of December 31, 2013. A purchase and sale contract was signed for a gross sales price of \$27,500,000 and the Trust received a non-refundable deposit of \$500,000. The sale of the property was consummated on February 26, 2014. After transfer of the debt, the Trust received net proceeds of \$5,106,000 on the sale of the property.

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Results for discontinued operations for the years ended December 31, 2013, 2012 and 2011 are as follows (in thousands):

	2013	2012	2011
Revenues	\$ 4,552	\$ 8,222	\$ 9,058
Operating expenses	(2,655)	(3,945)	(4,150)
Depreciation and amortization	(1,463)	(2,947)	(2,850)
Interest expense	(868)	(1,463)	(2,020)
Impairment loss	(2,904)	(1,522)	(3,000)
Gain on sale of assets	11,005	945	392
Settlement income	—	592	—
Gain on extinguishment of debt	—	—	2,919
Income (loss) from discontinued operations	<u>\$ 7,667</u>	<u>\$ (118)</u>	<u>\$ 349</u>

## 18. 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, 2012, 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 2013 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 \$31,697,000 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 \$247,000, \$234,000 and \$379,000 in state and local taxes for the years ended December 31, 2013, 2012 and 2011, respectively.

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

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

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

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

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



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The 2013 and 2012 cash dividends per Series D Preferred Share for an individual shareholder's income tax purposes were as follows:

	Ordinary Dividends	Capital Gains 15% Rate	Nontaxable Distribution	Total Dividends Paid
2013	\$ 2.31	\$ —	\$ —	\$ 2.31
2012	2.31	—	—	2.31

The 2013, 2012 and 2011 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
2013	\$ 0.65	\$ —	\$ —	\$ 0.65
2012	0.49	—	—	0.49
2011	0.69	—	—	0.69

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

	For the Years Ended December 31,		
	2013	2012	2011
Net income(loss) attributable to Winthrop Realty Trust	\$ 28,778	\$24,631	\$ 10,933
Book/Tax differences from depreciation and amortization expense	9,563	5,297	4,588
Book/Tax differences of accretion of discount	(4,121)	(8,333)	(13,401)
Book/Tax differences of unrealized gains	(73)	(6,923)	(2,788)
Book/Tax differences on gains/losses from capital transactions	(14,848)	(1,876)	(5,842)
Book/Tax differences on Preferred Shares	—	—	1,428
Book/Tax differences for impairment losses	2,904	3,260	7,600
Book/Tax differences on investments in unconsolidated joint ventures	(17,880)	4,131	31,634
Other book/tax differences, net	4,194	(8,781)	(766)
Book/Tax differences on dividend income	—	(452)	(371)
Book/Tax differences of market discount	—	14,065	13,250
Taxable income	<u>\$ 8,517</u>	<u>\$25,019</u>	<u>\$ 46,265</u>

## 19. 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 \$71,092,000 at December 31, 2013. The Trust also has ground lease commitments of \$1,405,000, \$1,463,000, \$1,592,000, \$1,656,000, \$1,791,000 and \$107,627,000 for the years ended December 31, 2014, 2015, 2016, 2017, 2018 and thereafter, respectively.

See Note 20 – related-party transactions for details on potential fees payable to our Advisor.

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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.

## 20. 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. FUR Advisors is controlled by and partially owned by the executive officers of the Trust. Pursuant to the terms of the Advisory Agreement, FUR Advisors is responsible for providing asset management services to the Trust and coordinating with the Trust’s shareholder transfer agent and property managers. FUR Advisors is entitled to receive a base management fee. In addition, FUR Advisors or its affiliate is also entitled to receive property and construction management fees subject to the approval of the Independent Trustees of the Trust.

The following table sets forth the fees and reimbursements paid by the Trust for the years ended December 31, 2013, 2012 and 2011 to FUR Advisors and Winthrop Management (in thousands):

	For the Years Ended		
	December 31, 2013	December 31, 2012	December 31, 2011
Base Asset Management Fee (1)	\$ 9,289	\$ 8,953	\$ 7,690
Property Management Fee	1,226	724	537
Construction Management Fee	397	128	1
	<u>\$ 10,912</u>	<u>\$ 9,805</u>	<u>\$ 8,228</u>

- (1) The base asset management fee paid by the Trust for third party equity contributions amounted to \$100,000, \$139,000 and \$49,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31, 2013, \$2,423,000 payable to FUR Advisors and \$408,000 payable to Winthrop Management were included in related party fees payable.

*Base Asset Management Fee* – FUR Advisors is entitled to receive a base management fee of 1.5% of equity as defined in the Advisory Agreement and in certain instances, a termination fee and/or an incentive fee in accordance with the terms of the Advisory Agreement. Additionally, FUR Advisors receives a fee equal to 0.25% of any equity contributions by unaffiliated third parties to a venture managed by the Trust.

*Incentive Fee / Supplemental Fee* – In certain circumstances, FUR Advisors is entitled to receive an incentive fee and/or a supplemental fee.

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, 2013 the threshold amount required to be distributed before any incentive fee would be payable to FUR Advisors was \$563,966,000, which was equivalent to \$15.75 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

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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 \$12.82 per Common Share in excess of the Growth Factor have been paid. For example, if the Trust had been liquidated at January 1, 2014, the supplemental fee would only have been payable if total dividends of approximately \$12.82 per Common Share had been paid, and then only until the total supplemental fee paid would have equaled \$9,289,000 (the base management fee for calendar 2013), which amount would be achieved when total dividends paid per Common Share equaled approximately \$14.12.

*Property Management and Construction 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. Winthrop Management receives a property management fee and construction management fee pursuant to the terms of individual property management agreements. Construction management fees are capitalized in accordance with GAAP.

### *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.

### *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.

## **21. Restricted Share Grants**

On February 1, 2013 the Board approved the issuance of 600,000 shares of Restricted Common Shares ("Restricted Shares") to the Trust's Advisor, 500,000 of which were subject to the approval of the shareholders to the increase in the number of shares issuable under the 2007 Plan. The initial 100,000 Restricted Shares were issued on February 28, 2013. At the May 21, 2013 annual shareholders meeting the increase in shares issuable under the SOP from 100,000 to 1,000,000 was approved by the requisite number of shareholders and the remaining 500,000 shares were issued on May 28, 2013. The Restricted Shares are subject to forfeiture through December 31, 2017. Except in limited circumstances, if the holder of the Restricted Shares does not remain in continuous employment with FUR Advisors or its affiliate through December 31, 2017 (the "Forfeiture Period"), all of their rights to the Restricted Shares and the associated dividends held in escrow will be forfeited. Dividends will be paid on the issued Restricted Shares in conjunction with dividends on Common Shares not issued under the 2007 Plan. However, the recipients of the Restricted Shares will only receive dividends as if the shares vested quarterly over the Forfeiture Period, with the remaining dividends to be placed into escrow and paid to the holders at the expiration of the Forfeiture Period.

Until the awards are no longer subject to forfeiture, the Trust measures stock-based compensation expense at each reporting date for any changes in fair value and recognizes the expense prorated for the portion of the requisite service period completed. Accordingly, the Trust recognized \$899,000 in non-cash compensation expense for the year ended December 31, 2013. As of December 31, 2013 7,500 Restricted Shares had been forfeited. As of December 31, 2013 there was \$5,648,000 of unrecognized compensation cost associated with the 592,500 shares subject to forfeiture.

## 22. Future Minimum Lease Payments

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

<u>Year</u>	<u>Amount</u>
2014	\$ 49,680
2015	46,993
2016	42,425
2017	39,740
2018	33,099
Thereafter	127,496
	<u>\$339,433</u>

Spectra Energy represented more than 10% of the base rental revenues of the Trust for the year ended December 31, 2013 contributing approximately 12.1%. This tenant represented approximately 16.7% 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, 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.

These revenues are reported in the operating properties business segment.

## 23. 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, 2013 and 2012 (in thousands):

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>Assets</b>		
Operating properties	\$ 845,698	\$ 562,822
Loan assets	147,702	239,534
REIT securities	—	19,694
Corporate		
Cash and cash equivalents	112,512	97,682
Restricted cash	186	—
Accounts receivable and prepaids	543	336
Deferred financing costs	2,645	3,095
Discontinued operations	23,038	—
Total Assets	<u>\$ 1,132,324</u>	<u>\$ 923,163</u>
<b>Capital Expenditures</b>		
Operating Properties	<u>\$ 3,892</u>	<u>\$ 12,417</u>

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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, 2013, 2012, and 2011 (in thousands):

	2013	2012	2011
<b>Operating Properties</b>			
Rents and reimbursements	\$ 61,103	\$ 44,213	\$ 35,848
Operating expenses	(20,724)	(13,614)	(12,437)
Real estate taxes	(5,876)	(3,672)	(3,541)
Equity in earnings of preferred equity investment in Fenway - Wateridge	613	—	—
Equity in (loss) income of Marc Realty investments	(284)	33	(775)
Equity in (loss) income of Sealy Northwest Atlanta	(469)	(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	9,174	4,603	113
Equity in income of WRT-Elad	1,315	903	—
Equity in income of Mentor	84	46	—
Equity in income of 701 Seventh Avenue	3,424	—	—
Equity in income of Fenway - Wateridge	183	—	—
Equity of loss in Atrium Mall	(90)	—	—
Equity in income of F-II Co-invest	—	232	—
Operating properties operating income	48,453	29,545	19,546
Depreciation and amortization expense	20,443	(15,119)	(10,692)
Interest expense	(14,204)	(12,348)	(11,057)
Impairment loss on investments in real estate	—	(1,738)	(4,600)
Impairment loss on Marc Realty equity investments	(7,687)	—	(15,764)
Impairment loss on Sealy equity investments	—	—	(5,294)
(Loss) gain on extinguishment of debt	—	(121)	6,439
Settlement (expense) income	(411)	—	5,868
Gain on consolidation of property	—	—	818
Operating properties net income (loss)	46,594	219	(14,736)
<b>Loan Assets</b>			
Interest income	14,334	11,736	11,073
Discount accretion	4,121	8,333	13,401
Equity in earnings of preferred equity investment in Marc Realty	—	—	338
Equity in earnings of Lex-Win Concord	—	—	258
Equity in earnings of Concord Debt Holdings	3,072	422	3,216
Equity in earnings of CDH CDO	1,033	1,715	480
Equity in earnings (loss) of Concord Debt Holdings (1)	64	(456)	—
Equity in earnings (loss) of CDH CDO (1)	4,926	(997)	—
Equity in earnings of ROIC Riverside	—	706	936
Equity in (loss) earnings of ROIC Lakeside Eagle	(25)	(42)	664
Equity in earnings of 46th Street Gotham	—	—	621
Equity in earnings of Sofitel	—	—	2,177
Equity in earnings of RE CDO Management	3,709	67	46
Equity in (loss) earnings of Socal Office Loan Portfolio	(2)	9,706	272
Equity in earnings of WRT-Stamford	930	769	—
Equity in earnings of 10 Metrotech	3,284	335	—
Realized gain on sale of loan securities carried at fair value	—	614	—
Unrealized gain on loan securities carried at fair value	215	447	2,738
Loan assets operating income	35,661	33,355	36,220
General and administrative expense	(46)	(121)	(75)
Interest expense	(1,898)	(1,494)	(850)
Provision for loss on loans receivable	(348)	—	—
Loan assets net income	33,369	31,740	35,295
<b>REIT Securities</b>			
Dividends	—	1,054	984
Gain on sale of securities carried at fair value	742	41	123
Unrealized gain on securities carried at fair value	(142)	6,916	2,788
REIT securities net income	600	8,011	3,895
<b>Net Income from segments before corporate income (expense)</b>	80,563	39,970	24,454
Reconciliations to GAAP Net Income:			
<b>Corporate Income (Expense)</b>			
Interest and other income	375	699	1,175
General and administrative	(4,317)	(3,408)	(3,452)
Related Party Fees	(9,289)	(8,953)	(7,690)
Transaction costs	(1,885)	(421)	(519)
Interest expense	(7,310)	(3,153)	(2,094)
Loss on redemption of Series B-1 Preferred Shares	—	—	(100)
Federal, state and local taxes	(430)	(232)	(376)
Income from continuing operations before non-controlling interest	16,821	24,502	11,398
Non-controlling interest	4,290	247	(814)

Income from continuing operations attributable to Winthrop Realty Trust	<u>\$ 21,111</u>	<u>\$ 24,749</u>	<u>\$ 10,584</u>
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**24. 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's office properties in Cerritos, California and Philadelphia, Pennsylvania are consolidated VIEs. The Trust has no future funding obligation to these entities, and the Trust's maximum exposure to loss is limited to its invested capital.

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 nine investments for which the Trust holds a variable interest in a VIE. Of these nine interests there are five 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 four of these assets have been identified as variable interests in a VIE. Of these four assets there are three investments for which 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. There is one loan asset for which the VIE assessment was made primarily based on the fact that the equity holders or the underlying investment lack the right to receive returns due to the lender's participation interest.

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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### 25. 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, 2013 and 2012. 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
<b>2013</b>				
Revenues	\$19,036	\$19,040	\$ 18,255	\$ 23,227
Net income (loss) attributable to Winthrop Realty Trust	\$13,746	\$ 8,374	\$ 11,728	\$ (5,070)
Net income (loss) applicable to Common Shares	\$10,943	\$ 5,490	\$ 8,835	\$ (7,946)
Per share				
Net income (loss) applicable to Common Shares, basic	\$ 0.33	\$ 0.17	\$ 0.27	\$ (0.22)
Net income (loss) applicable to Common Shares, diluted	\$ 0.33	\$ 0.17	\$ 0.27	\$ (0.22)
<b>2012</b>				
Revenues	\$15,827	\$16,753	\$ 15,204	\$ 17,552
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)

### 26. 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 Loan Modification* - On January 10, 2014 the mezzanine loan agreement was amended to increase the principal balance by \$4,000,000 and to increase the interest rate by 1.5% to a rate of 16.25% per annum. The Trust's share of the increased loan amount was \$2,000,000. To date, the Trust has funded \$1,375,000.

*Newbury Apartments Property Sale* - On February 26, 2014 the Trust sold its interest in the Newbury Apartments property located in Meriden, Connecticut for gross sale proceeds of \$27,500,000.

*Freed Management Loan Origination* - On March 5, 2014 the Trust originated a \$15,500,000 mezzanine loan secured by a majority of the limited partnership interests in entities controlled by Freed Management that indirectly hold Edens Plaza and Norridge Commons, two retail shopping centers in Chicago, Illinois. The Trust also acquired the general partnership interest in each of the above entities for an aggregate price of \$500,000. The loan bears interest at LIBOR plus 12% per annum (increasing by 100 basis points in each extended term), requires payments of current interest at a rate of 10% per annum (increasing by 50 basis points each year) and has a three-year term, subject to two, one-year extensions. Upon satisfaction of the loan, the Trust will be entitled to a participation interest equal to the greater of (i) a 14.5% IRR (increasing to 15.5% IRR after the initial term) and (ii) 30% (increasing by 40% after the initial term and 50% after the first extended term) of the value of the properties in excess of \$115,000,000. As additional collateral for the loan, the Trust acquired a pledge of the interests held by Freed Management and its affiliates in the Sullivan Center and Mentor Retail ventures.

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### 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, 2013. 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 effect on our financial statements.

As of December 31, 2013 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) (1992) 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, 2013.

The effectiveness of the Trust's internal control over financial reporting as of December 31, 2013 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, 2013 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 2014, 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 64 of Item 8.

Management’s Report on Internal Controls over Financial Reporting on page 118 of Item 9A.

Consolidated Balance Sheets - December 31, 2013 and 2012 on page 66 of Item 8.

Consolidated Statements of Operations and Comprehensive Income - For the Years Ended December 31, 2013, 2012 and 2011 on page 67 of Item 8.

Consolidated Statements of Shareholders’ Equity - For the Years Ended December 31, 2013, 2012 and 2011 on page 68 of Item 8.

Consolidated Statements of Cash Flows - For the Years Ended December 31, 2013, 2012 and 2011 on pages 70 and 71 of Item 8.

Notes to Consolidated Financial Statements on pages 72 through 117 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.

The Trust’s unconsolidated joint ventures, 701 Seventh WRT Investors LLC and Vintage Housing Holdings LLC, meet the definition of a significant subsidiary under S-X 210.1-02(w) and financial statements for these entities will be filed as an amendment to this Form 10-K.

**(b) Exhibits.**

The exhibits listed on the Exhibit Index on page 125 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 17, 2014

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

Dated: March 17, 2014

By: /s/ John A. Garilli  
John A. Garilli  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting 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 17, 2014
<u>/s/ Carolyn Tiffany</u>	Trustee	March 17, 2014
Arthur Blasberg, Jr. Howard Goldberg Thomas McWilliams Lee Seidler Steven Zalkind	Trustee	March 17, 2014
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, 2013**  
(amounts in thousands)

Description	Location	Location	Mortgage Encumbrances	Initial Cost to Registrant		Cost capitalized/(impaired) subsequent to acquisition	As of December 31, 2013			Accumulated Depreciation	Date Acquired	Life
				Land	Building and Improvements		Land/Building and Improvements	Land	Building and Improvements	Total		
Office	Orlando	FL	\$ 36,983	\$ —	\$ 17,248	\$ 42	\$ —	\$ 17,290	\$ 17,290	\$ 3,944	11/2004	(1)
Office	Plantation	FL	10,684	—	8,915	4,020	4,000	8,935	12,935	2,038	11/2004	(1)
Office	Chicago	IL	19,856	—	23,635	2,875	—	26,510	26,510	5,792	10/2005	(1)
Office	Amherst	NY	—	1,591	18,027	1,377	2,573	18,422	20,995	3,887	5/2005	(1)
Office	South Burlington	VT	—	—	3,099	309	—	3,408	3,408	671	12/2005	(1)
Office	Chicago	IL	8,579	1,149	9,989	5,631	1,149	15,620	16,769	2,517	10/2007	(1)
Office	Houston	TX	47,201	7,075	62,468	—	7,075	62,468	69,543	14,185	1/2005	(1)
Office	Lisle	IL	5,752	3,774	16,371	2,461	3,774	18,832	22,606	3,779	2/2006	(1)
Office	Lisle	IL	5,470	780	2,803	689	780	3,492	4,272	635	2/2006	(1)
Office	Englewood	CO	—	2,580	5,403	3,347	2,580	8,750	11,330	1,341	11/2010	(1)
Office	Englewood	CO	—	1,829	5,612	717	1,829	6,329	8,158	875	12/2010	(1)
Office	New York	NY	51,950	—	52,778	7,469	—	60,247	60,247	3,740	11/2011	(1)
Office	Cerritos	CA	23,142	4,114	16,190	3,419	4,114	18,681	22,795	911	10/2012	(1)
Office	Philadelphia	PA	42,440	18,627	23,340	2,212	18,627	25,552	44,179	788	2/2013	(1)
			252,057	41,519	265,878	34,568	46,501	294,536	341,037	45,103		
Retail	Atlanta	GA	—	—	4,633	(2,675)	—	1,958	1,958	142	11/2004	(1)
Retail	Louisville	KY	—	—	2,722	377	373	2,726	3,099	622	11/2004	(1)
Retail	Greensboro	NC	—	—	3,797	4	—	3,801	3,801	867	11/2004	(1)
			—	—	11,152	(2,294)	373	8,485	8,858	1,631		
Other	Jacksonville	FL	—	2,166	8,684	2,241	2,166	10,925	13,091	2,541	11/2004	(1)
Other	Churchill	PA	5,049	—	23,834	(14,129)	—	9,705	9,705	4,176	11/2004	(1)
Other	Memphis	TN	13,125	3,080	17,485	883	3,080	18,368	21,448	1,150	4/2012	(1)
Other	Greensboro	NC	14,735	1,961	16,482	132	1,961	16,614	18,575	766	11/2012	(1)
Other	Oklahoma City	OK	9,967	1,328	13,351	—	1,328	13,351	14,679	70	10/2013	(1)
Other	Phoenix	AZ	24,390	1,053	38,488	—	1,053	38,488	39,541	181	10/2013	(1)
Other	San Pedro	CA	12,195	3,879	15,952	—	3,879	15,952	19,831	98	10/2013	(1)
Other	Stamford	CT	48,780	5,707	73,460	—	5,707	73,460	79,167	315	10/2013	(1)
Other	Houston	TX	64,635	16,167	88,769	—	16,167	88,769	104,936	417	10/2013	(1)
			192,876	35,341	296,505	(10,873)	35,341	285,632	320,973	9,714		
<b>Total</b>			<b>\$ 444,933</b>	<b>\$ 76,860</b>	<b>\$ 573,535</b>	<b>\$ 21,401</b>	<b>\$ 82,215</b>	<b>\$ 588,653</b>	<b>\$ 670,868</b>	<b>\$ 56,448</b>		

(1) Buildings are depreciated over 30-40 years. Building improvements are depreciated over 5-20 years. Tenant improvements are depreciated over the shorter of the useful life or the term of the related lease.

The aggregate cost in the properties for federal income tax purposes was approximately

\$ 576,496

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

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

	2013	Year Ended December 31, 2012	2011
<b>Real Estate</b>			
Balance at beginning of period	\$421,989	\$363,832	\$308,499
Additions during the period:			
Other acquisitions	258,153	59,312	—
Improvements, etc.	6,165	12,417	11,962
Other additions	41,967	—	52,778
Deductions during this period:			
Cost of real estate sold	(27,974)	(629)	—
Other deductions	—	(26)	—
Asset impairments	(2,799)	(2,562)	(7,600)
Disposal of fully amortized assets	(1,082)	(297)	(168)
Transfer of discontinued operations	(25,551)	(10,058)	(1,639)
Balance at end of period	<u>\$670,868</u>	<u>\$421,989</u>	<u>\$363,832</u>
<b>Accumulated Depreciation</b>			
Balance at beginning of period	\$ 51,553	\$ 44,556	\$ 36,232
Additions charged to operating expenses	13,671	11,207	8,644
Disposal of properties	(4,946)	—	—
Transfer (to) from discontinued operations, net (1)	(2,748)	(3,913)	(152)
Disposal of fully amortized assets	(1,082)	(297)	(168)
Balance at end of period	<u>\$ 56,448</u>	<u>\$ 51,553</u>	<u>\$ 44,556</u>

- (1) In 2013, the Deer Valley, Arizona; Meriden, Connecticut; Lisle, Illinois; Andover, Massachusetts; Denton, Texas and Seabrook, Texas properties were placed in discontinued operations. 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.

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### Schedule IV Mortgage Loans on Real Estate December 31, 2013 (Amounts in thousands)

Type of Loan	Location	Interest Rate	Contractual Maturity Date	Periodic Payment Terms	Senior Liens	Face Value	Outstanding Principal	Carrying Amount (1)
Whole Loan	New York, NY	LIBOR + 4.0%	10/05/14	Interest Only	\$ —	\$ 20,000	\$ 20,000	\$ 20,101
Whole Loan	Tempe, AZ	5.88%	01/01/15	Amortizing	—	29,035	28,403	28,547
Whole Loan (6)	Philadelphia, PA	7.7%	02/01/16	Interest Only	42,440	36,171	24,821	—
Whole Loan (2)	Various	Various	Various	Interest Only	—	6,088	6,088	6,136
B-Note	New York, NY	7.19%	07/11/16	Amortizing	243,370	10,871	10,205	10,250
B-Note Other (3)	Various	Various	Various	Amortizing	218,366	15,478	12,927	12,997
Mezzanine Other (4) (5)	Various	Various	Various	Interest Only	38,883	4,988	3,326	2,992
Mezzanine	Playa Vista, CA	LIBOR 4.25%	01/23/15	Interest Only	80,300	10,250	10,250	10,327
Corporate Loan	n/a	15.00%	10/31/14	Interest Only	—	9,750	9,750	9,750
						<u>\$142,631</u>	<u>\$ 125,770</u>	<u>\$101,100</u>

- (1) Carrying amount of loans receivable includes accrued interest of \$501 at December 31, 2013.
- (2) Line item includes 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) Line item includes one loan with a face value of \$1,486 which is on non-accrual status. The total principal amount of loans subject to delinquent payments is \$348.
- (6) This loan is eliminated in consolidation.

#### Reconciliation of Mortgage Loans on Real Estate:

The following table reconciles Mortgage Loans for the years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
Balance at January 1	\$211,250	\$114,333	\$110,395
Purchase and advances	22,314	175,550	67,619
Interest (received) accrued, net	(514)	516	(37)
Repayments / Sale Proceeds	(75,407)	(68,824)	(70,289)
Loan accretion	4,121	8,333	13,401
Discount accretion received in cash	(37)	(15,720)	(13,290)
Reclass from loan securities	—	—	662
Reclass from equity investments	—	—	12,544
Reclass to equity investments	—	(2,938)	(4,650)
Elimination of 1515 Market Street in consolidation	(60,279)	—	—
Reclass to preferred investments	—	—	(2,022)
Provision for loss on loans receivable	(348)	—	—
Balance at December 31	<u>\$101,100</u>	<u>\$211,250</u>	<u>\$114,333</u>



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<u>Exhibit</u>	<u>Description</u>	<u>Page Number</u>
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	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.	-
10.9	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.	-
10.10	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.	-
10.11	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.	-
10.12	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	*
23.2	Consent of Independent Registered Accounting Firm – KPMG LLP (Concord Debt Holdings LLC financials)	*
23.3	Consent of Independent Registered Accounting Firm - KPMG LLP (CDH CDO LLC financials)	*
23.4	Consent of Independent Registered Accounting Firm – Frazier & Deeter, LLC (Sealy Northwest Atlanta Partners LP financials)	*
23.5	Consent of Independent Registered Accounting Firm – Frazier & Deeter, LLC (Sealy Newmarket General Partnership financials)	*
24	Power of Attorney	*

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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 CDH CDO LLC	*
99.3	Consolidated Financial Statements of Sealy Northwest Atlanta Partners LP	*
99.4	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

<u>Entity</u>	<u>State of Formation</u>
1515 Market Street Acquisition Partners, LP	Delaware
1515 Market Street Partners, LP	Delaware
446-High Line LLC	New York
450 SPE Manager, Inc.	New York
5400 Westheimer Court LLC	Delaware
5400 Westheimer Holding L.P.	Delaware
5400 Westheimer Limited Partnership	Delaware
701 Seventh JV LLC	Delaware
701 Seventh Partners LLC	Delaware
701 Seventh WRT Investor LLC	Delaware
Amherst Outparcel LLC	New York
Atrium Mall LLC	Delaware
CDH CDO LLC	Delaware
Cerritos Corporate Partners Inc.	California
Cerritos Corporate Tower, L.P.	California
CNL-AB LLC	Delaware
Concord Debt Holdings LLC	Delaware
FT-5400 Unit 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 (Greensboro) LLC	Delaware
FT-KRG (Louisville) 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
MARC 1701 E. Woodfield Road	Illinois
MARC Brooks Building LLC	Illinois
MARC Highpoint Plaza LLC	Illinois
Mentor Retail, L.L.C.	Illinois
Newbury Apartments LLC	Delaware

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Newbury Properties DE LLC	Delaware
RE CDO Management LLC	Delaware
RS Summit Pointe Apartments LLC	Delaware
Sealy Northwest Atlanta Partners, L.P	Delaware
SRE Weststate LLC	Delaware
Stamford SM LLC	Delaware
Vintage Housing Holdings, LLC	California
WRP Management LLC	Delaware
WRT One South State Lender L.P.	Delaware
WRT Realty L.P.	Delaware
WRT TRS Management Corp.	Delaware
WRT-1050 Corporetum Holdings LLC	Delaware
WRT-1050 Corporetum Property LLC	Delaware
WRT-1050 Corporetum Property Manager LLC	Delaware
WRT-1515 Limited Partnership	Delaware
WRT-1515 MS L.P.	Delaware
WRT-1515 MSA GP LLC	Delaware
WRT-1515 Property GP 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-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-Elad One South State Equity L.P.	Delaware
WRT-Fenway Wateridge LLC	Delaware
WRT-High Line LLC	Delaware
WRT-Highgrove Property GP LLC	Delaware
WRT-Highgrove Property L.P.	Delaware
WRT-Lake Brandt Property LLC	Delaware
WRT-Lender (Disney) LLC	Delaware
WRT-Lender (Pinnacle) LLC	Delaware
WRT-Lender (Poipu) LLC	Delaware
WRT-Lender (Wailea) LLC	Delaware
WRT-Lender LLC	Delaware
WRT-LP LLC	Delaware
WRT-Marc RC Holding LLC	Delaware
WRT-Marc RC LLC	Illinois
WRT-Mentor Equity LLC	Delaware
WRT-Monroe Property GP LLC	Delaware
WRT-Monroe Property L.P.	Delaware
WRT-Mosaic Property GP LLC	Delaware
WRT-Mosaic Property L.P.	Delaware
WRT-NV ST Holdings LLC	Delaware

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WRT-Property Holdings LLC	Delaware
WRT-PV Lender LLC	Delaware
WRT-Queensridge Lender LLC	Delaware
WRT-Rockwell LLC	Delaware
WRT-ROIC Lakeside Eagle LLC	Delaware
WRT-San Pedro Property GP LLC	Delaware
WRT-San Pedro Property L.P.	Delaware
WRT-South Burlington Property LLC	Delaware
WRT-South Burlington Property Manager LLC	Delaware
WRT-Springing Member LLC	Delaware
WRT-ST LLC	Delaware
WRT-Stamford LLC	Delaware
WRT-State Street Lender LLC	Delaware
WRT-Summit Pointe LLC	Delaware
WRT-VHH LLC	Delaware
WRT-Waterford Place LLC	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 17, 2014, 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 17, 2014

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 statements of operations, changes in members' capital, and cash flows of Concord Debt Holdings LLC for the year ended December 31, 2011, which report appears in the December 31, 2013 annual report on Form 10-K of Winthrop Realty Trust.

/s/ KPMG LLP  
Boston, Massachusetts  
March 17, 2014



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, 2014, with respect to the consolidated balance sheet of CDH CDO LLC and subsidiaries as of December 31, 2013 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, 2013 annual report on Form 10-K of Winthrop Realty Trust.

/s/ KPMG LLP  
Boston, Massachusetts  
March 17, 2014

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 14, 2014

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 14, 2014, relating to the financial statements of Sealy Newmarket General Partnership which appears in this Form 10-K.

/s/ Frazier & Deeter, LLC  
Atlanta, Georgia  
March 14, 2014

**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, 2013**

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, 2013 (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 4<sup>th</sup> day March, 2014.

/s/ Arthur Blasberg, Jr.

Arthur Blasberg, Jr.

/s/ Howard Goldberg

Howard Goldberg

/s/ Thomas McWilliams

Thomas McWilliams

/s/ Lee Seidler

Lee Seidler

/s/ Steven Zalkind

Steven Zalkind

**WINTHROP REALTY TRUST**  
**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013**

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 17, 2014

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

**WINTHROP REALTY TRUST**  
**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013**

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 17, 2014

/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, 2013, 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 17, 2014

/s/ Michael L. Ashner

Michael L. Ashner

Chief Executive Officer

Date: March 17, 2014

/s/ John A. Garilli

John A. Garilli

Chief Financial Officer

**CONCORD DEBT HOLDINGS LLC**

Consolidated Financial Statements

December 31, 2013 (unaudited), 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 statements of operations, changes in members' capital, and cash flows of Concord Debt Holdings LLC and subsidiaries for the year ended December 31, 2011. 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 results of operations and cash flows of Concord Debt Holdings LLC and subsidiaries for the year ended December 31, 2011 in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated balance sheets as of December 31, 2013 and 2012, and the consolidated statements of operations, members' capital and cash flows for the years then ended were not audited by us and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

March 7, 2012

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**CONCORD DEBT HOLDINGS LLC**

## Consolidated Balance Sheets

December 31, 2013 (unaudited) and 2012 (unaudited)

(In thousands)

	<b>2013</b> unaudited	<b>2012</b> unaudited
<b>Assets</b>		
Cash and cash equivalents	\$ 894	\$ 741
Restricted cash	—	1,000
Real estate debt investments carried at fair value	13,294	23,492
Securities carried at fair value	3,412	30
Interest and other receivables	72	103
Other assets	<u>22</u>	<u>29</u>
Total assets	<u>\$17,694</u>	<u>\$25,395</u>
<b>Liabilities and Capital</b>		
Liabilities:		
Other liabilities	\$ 58	\$ 43
Total liabilities	58	43
Members' capital	<u>17,636</u>	<u>25,352</u>
Total liabilities and capital	<u>\$17,694</u>	<u>\$25,395</u>

See accompanying notes to consolidated financial statements.

**CONCORD DEBT HOLDINGS LLC**

Consolidated Statements of Operations

Years ended December 31, 2013 (unaudited), 2012 (unaudited) and 2011

(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	unaudited	unaudited	
Income:			
Interest income	\$ 1,473	\$ 1,748	\$ 3,472
Fees received from related party	<u>41</u>	<u>48</u>	<u>57</u>
Total income	<u>1,514</u>	<u>1,796</u>	<u>3,529</u>
Expenses:			
Interest	—	—	726
General and administrative	<u>294</u>	<u>623</u>	<u>448</u>
Total expenses	<u>294</u>	<u>623</u>	<u>1,174</u>
Net investment income	<u>1,220</u>	<u>1,173</u>	<u>2,355</u>
Realized and unrealized gain (loss) from investments:			
Realized gain on sale of securities carried at fair value	—	—	370
Realized loss on sale of securities carried at fair value	(3)	(7)	(1,127)
Realized gain on sale of real estate debt investments carried at fair value	853	—	8,634
Realized loss on sale of real estate debt investments carried at fair value	(4,560)	—	(1,532)
Realized loss on repurchase agreement carried at fair value	—	—	(1,850)
Realized loss on revolving credit facility carried at fair value	<u>—</u>	<u>—</u>	<u>(845)</u>
Total realized (loss) gain from investments, net	<u>(3,710)</u>	<u>(7)</u>	<u>3,650</u>
Unrealized gain (loss) on real estate debt investment carried at fair value	466	(1,404)	3,666
Unrealized loss on securities carried at fair value	—	(544)	(273)
Unrealized gain on securities carried at fair value	<u>3,385</u>	<u>—</u>	<u>—</u>
Total unrealized gain (loss) from investments, net	<u>3,851</u>	<u>(1,948)</u>	<u>3,393</u>
Total realized and unrealized gain (loss) from investments	<u>141</u>	<u>(1,955)</u>	<u>7,043</u>
Net income (loss) from continuing operations	<u>1,361</u>	<u>(782)</u>	<u>9,398</u>
Discontinued operations:			
Income from discontinued operations	<u>—</u>	<u>13</u>	<u>36</u>
Total income from discontinued operations	<u>—</u>	<u>13</u>	<u>36</u>
Net income (loss)	<u>\$ 1,361</u>	<u>\$ (769)</u>	<u>\$ 9,434</u>

See accompanying notes to consolidated financial statements.

**CONCORD DEBT HOLDINGS LLC**

Consolidated Statements of Changes in Members' Capital

Years ended December 31, 2013 (unaudited), 2012 (unaudited) and 2011

(In thousands)

	<b>WRT Concord LLC</b>	<b>Lexington CDH I LLC</b>	<b>Inland American Concord Sub LLC</b>	<b>Total</b>
Balance at December 31, 2010	\$ 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)	16,683	—	8,669	25,352
Net income	907	—	454	1,361
Distribution	(6,144)	—	(2,933)	(9,077)
Balance at December 31, 2013 (unaudited)	<u>\$11,446</u>	<u>—</u>	<u>6,190</u>	<u>17,636</u>

See accompanying notes to consolidated financial statements.

**CONCORD DEBT HOLDINGS LLC**

Consolidated Statements of Cash Flows

Years ended December 31, 2013 (unaudited), 2012 (unaudited) and 2011

(In thousands)

	<u>2013</u> unaudited	<u>2012</u> unaudited	<u>2011</u>
Cash flows from operating activities:			
Net income (loss)	\$ 1,361	\$ (769)	\$ 9,434
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Unrealized (gain) loss on real estate debt investment carried at fair value	(466)	1,404	(3,666)
Realized gain on sale of securities carried at fair value	—	—	(370)
Realized loss on sale of securities carried at fair value	3	7	1,127
Realized loss on sale of real estate debt investments carried at fair value	4,560	—	1,532
Realized gain on sale of real estate debt investment carried at fair value	(853)	—	(8,634)
Realized loss on repurchase agreement carried at fair value	—	—	1,850
Realized loss on credit facility carried at fair value	—	—	845
Unrealized (gain) loss on securities carried at fair value	(3,385)	544	273
Changes in operating assets and liabilities:			
Interest and other receivables	31	(2)	288
Other assets	7	78	15
Other liabilities	15	(107)	(185)
Net cash provided by operating activities	<u>1,273</u>	<u>1,155</u>	<u>2,509</u>
Cash flows from investing activities:			
Proceeds from sale of securities carried at fair value	—	—	370
Repayment of real estate debt investments	4	3	—
Proceeds from sale of real estate debt investments	7,798	—	56,672
Advances on real estate debt investments	(845)	(1,272)	—
Purchase of real estate debt investments	—	—	(11,000)
Change in restricted cash	<u>1,000</u>	<u>(1,000)</u>	<u>2,214</u>
Net cash provided by (used in) investing activities	<u>7,957</u>	<u>(2,269)</u>	<u>48,256</u>
Cash flows from financing activities:			
Repayments on repurchase agreements	—	—	(6,137)
Repayment of revolving credit facility	—	—	(35,599)
Distribution to members	<u>(9,077)</u>	<u>(1,123)</u>	<u>(9,332)</u>
Net cash used in financing activities	<u>(9,077)</u>	<u>(1,123)</u>	<u>(51,068)</u>
Net increase (decrease) in cash and cash equivalents	153	(2,237)	(303)
Cash and cash equivalents at beginning of year	<u>741</u>	<u>2,978</u>	<u>3,281</u>
Cash and cash equivalents at end of year	<u>\$ 894</u>	<u>\$ 741</u>	<u>\$ 2,978</u>

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**CONCORD DEBT HOLDINGS LLC**

## Consolidated Statements of Cash Flows

Years ended December 31, 2013 (unaudited), 2012 (unaudited) and 2011

(In thousands)

	<u>2013</u> unaudited	<u>2012</u> unaudited	<u>2011</u>
Supplemental cash flow information:			
Interest paid	\$ —	\$ —	\$ 691
Supplement disclosure of noncash investing and financing activities:			
Debt assumed on sale of real estate investment at fair market value	\$ —	\$ —	\$56,090

See accompanying notes to consolidated financial statements.

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## CONCORD DEBT HOLDINGS LLC

### Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

#### (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.

#### (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.



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## CONCORD DEBT HOLDINGS LLC

### Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

**(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).

**(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.

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## CONCORD DEBT HOLDINGS LLC

### Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

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.

**(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.

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## CONCORD DEBT HOLDINGS LLC

### Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

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.

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.

# CONCORD DEBT HOLDINGS LLC

## Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

### (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.

### (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, 2013 and 2012 (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 2013
			(unaudited)	
<b>Assets:</b>				
Cash and cash equivalents	\$ 894	—	—	894
Restricted cash	—	—	—	—
Real estate debt investments	—	—	13,294	13,294
Securities	—	—	3,412	3,412

# CONCORD DEBT HOLDINGS LLC

## Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

	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  2013
		(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

# CONCORD DEBT HOLDINGS LLC

## Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

### 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, 2013 and 2012 and 2011 (in thousands):

	<u>Real estate debt investments</u>	<u>Securities</u>
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	<u>1,272</u>	<u>—</u>
Fair value, December 31, 2012 (unaudited)	23,492	30
Total realized and unrealized gains and losses included in statements of operations	(3,241)	3,382
Repayments of securities, investments, and loans	(4)	—
Advance on real estate debt investments	845	—
Sale of investments and securities	<u>(7,798)</u>	<u>—</u>
Fair value, December 31, 2013 (unaudited)	<u>\$ 13,294</u>	<u>3,412</u>
Change in unrealized gain included in earnings related to the investments still held at December 31, 2013 (unaudited)	\$ 428	3,385
Change in unrealized loss included in earnings related to the investments still held at December 31, 2012 (unaudited)	\$ (1,013)	(544)

# CONCORD DEBT HOLDINGS LLC

## Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

The following table presents additional quantitative information about assets measured at fair value as of December 31, 2013 and 2012 on a recurring and nonrecurring basis for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands).

December 31, 2013 (unaudited)					
<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	\$ 13,294	Discounted cash flow	Discount rate	7.267%	7.267%
Securities	\$ 3,412	Discounted cash flow	Discount rate	62.63% to 73.90%	70.0%
December 31, 2012 (unaudited)					
<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, 2013 and 2012.

(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.

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, 2013 and 2012 (in thousands):

		2013 (unaudited)	
		<u>Real estate debt investments at fair value</u>	<u>Loan count</u>
Mezzanine loans		13,294	2
Total loans		<u>\$ 13,294</u>	<u>2</u>

# CONCORD DEBT HOLDINGS LLC

## Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

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

The following table sets forth the maturity dates for the Company's real estate debt investments at December 31, 2013 and 2012 (in thousands):

<u>December 31, 2013 (unaudited)</u>				
	Number of	Principal		Percentage
<u>Year of maturity (1)</u>	<u>loan assets</u>	<u>balance</u>	<u>Fair value</u>	<u>of total</u>
	<u>maturing</u>			
2014	—	\$ —	—	— %
2015	—	—	—	—
2016	2	12,893	13,294	100
2017	—	—	—	—
2018 and thereafter	—	—	—	—
Total real estate debt investments	<u>2</u>	<u>\$12,893</u>	<u>13,294</u>	<u>100%</u>

- (1) Weighted average maturity is 2.78 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.

<u>December 31, 2012 (unaudited)</u>				
	Number of	Principal		Percentage
<u>Year of maturity (1)</u>	<u>loan assets</u>	<u>balance</u>	<u>Fair value</u>	<u>of total</u>
	<u>maturing</u>			
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>

- (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.



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## CONCORD DEBT HOLDINGS LLC

### Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

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, 2013, the Company had no 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, 2013 and 2012.

As of December 31, 2013, two loans exceeded 10% of the Company's assets and for the year ended December 31, 2013, there were two loans that generated more than 10% of the Company's income. The two loans are collateralized by office buildings in Honolulu, Hawaii and East Hartford, Connecticut.

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.

During the year ended December 31, 2013, the Company sold three loans for total proceeds of \$7.8 million. The Company recognized a net realized loss of \$3.7 million. The Company had recognized an accumulated unrealized loss of \$0.2 million at the beginning of 2013.

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, 2013 and 2012. These bonds are marked to fair value on a recurring basis.

**CONCORD DEBT HOLDINGS LLC**

Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

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

		<b>2013 (unaudited)</b>			
		<b>Unrealized</b>		<b>Unrealized</b>	
	<b>Par</b>	<b>Cost basis</b>	<b>gains</b>	<b>(losses)</b>	<b>Fair value</b>
<b>CMBS:</b>					
Pool Bonds	\$15,390	1,119	3,385	(1,092)	3,412
Total securities at fair value	\$15,390	1,119	3,385	(1,092)	3,412

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

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, 2013 and 2012 (in thousands):

		<b>2013 (unaudited)</b>			
		<b>Less than 12 months</b>		<b>12 months or longer</b>	
		<b>Gross unrealized</b>		<b>Gross unrealized</b>	
	<b>Fair value</b>	<b>losses</b>	<b>Fair value</b>	<b>losses</b>	<b>Total Gross unrealized losses</b>
<b>CMBS:</b>					
Pool Bonds	\$ —	—	3,412	(1,092)	3,412 (1,092)
Total securities	\$ —	—	3,412	(1,092)	3,412 (1,092)

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

# CONCORD DEBT HOLDINGS LLC

## Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

The following table presents the amortized cost and fair value of debt securities available for sale by contractual maturity dates as of December 31, 2013 and 2012 (in thousands).

	2013 (unaudited)	
	Cost	Fair value
CMBS-Pool Bonds:		
Due within 1 year	\$ 521	3,040
After 1 but within 5 years	598	372
Total CMBS – Pool Bonds	<u>\$1,119</u>	<u>3,412</u>
	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>

Changes in fair value of securities are reflected in the statements of operations as unrealized gain or losses on securities. During the years ended December 31, 2013 and 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.

### (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.

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## CONCORD DEBT HOLDINGS LLC

### Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

At December 31, 2013 and 2012, 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 for the year ended December 31, 2012, 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.

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. As of December 31, 2013, this litigation has been resolved in favor of the plaintiffs and the restricted funds released and returned to the Company.

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**CONCORD DEBT HOLDINGS LLC**

Notes to Consolidated Financial Statements

December 31, 2013 (unaudited), 2012 (unaudited) and 2011

**(9) Related-Party Transactions**

For the years ended December 31, 2013, 2012 and 2011, the Company received advancing agent fees from Concord CDO in the amount of \$41,000, \$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 were scheduled to mature in July 2013. The property was sold on August 29, 2013.

For the year ended December 31, 2011, the Company sold real estate debt investments and securities to an affiliate of Winthrop for net proceeds of \$29,000,000 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 through March 7, 2012, which was the date the consolidated financial statements were available to be issued.

**CDH CDO LLC**

Consolidated Financial Statements

December 31, 2013 and 2012 (unaudited)

(With Independent Auditors' Report Thereon)

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**CDH CDO LLC**

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## Independent Auditors' Report

The Members  
CDH CDO LLC:

We have audited the accompanying consolidated financial statements of CDH CDO LLC and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, changes in members' capital, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of CDH CDO LLC and its subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



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The accompanying consolidated balance sheet as of December 31, 2012, and the consolidated statements of operations, members' capital and cash flows for the years ended December 31, 2012 and 2011 were not audited by us and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Boston, Massachusetts  
March 11, 2014

**CDH CDO LLC**

Consolidated Balance Sheets

December 31, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u> (unaudited)
<b>Assets</b>		
Cash and cash equivalents	\$ 1,915	\$ 1,885
Restricted cash	50	805
Real estate debt investments carried at fair value	180,094	185,060
Securities carried at fair value	56,395	95,994
Land, building, and improvements, net	—	19,909
Intangible assets, net	—	1,665
Interest and other receivables	912	1,030
Other assets	<u>75</u>	<u>1,423</u>
Total assets	<u>\$239,441</u>	<u>\$307,771</u>
<b>Liabilities and Capital</b>		
Liabilities:		
Collateralized debt obligation carried at fair value	\$166,657	\$191,345
Mortgage note payable	—	22,293
Interest rate swap liability	7,245	11,413
Other liabilities	<u>2,341</u>	<u>5,423</u>
Total liabilities	<u>176,243</u>	<u>230,474</u>
Members' capital:		
Members' capital	63,084	77,195
Noncontrolling equity interest	<u>114</u>	<u>102</u>
Total capital	<u>63,198</u>	<u>77,297</u>
Total liabilities and capital	<u>\$239,441</u>	<u>\$307,771</u>

See accompanying notes to consolidated financial statements.

**CDH CDO LLC**

Consolidated Statements of Operations

Years ended December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

(In thousands)

	<u>2013</u>	<u>2012</u> (unaudited)	<u>2011</u> (unaudited)
<b>Income:</b>			
Interest income on real estate debt investments and securities	\$ 16,828	\$ 17,381	\$ 16,064
<b>Expenses:</b>			
Interest expense	6,356	6,647	8,563
Fees and expenses paid to related party	1,000	1,000	1,000
General and administrative	<u>625</u>	<u>1,247</u>	<u>1,904</u>
Total expenses	<u>7,981</u>	<u>8,894</u>	<u>11,467</u>
Net investment income	<u>8,847</u>	<u>8,487</u>	<u>4,597</u>
<b>Realized and unrealized gain (loss) from investments:</b>			
Realized gain on securities carried at fair value	—	1,690	6,084
Realized loss on securities carried at fair value	(6)	(40)	(5,500)
Realized gain on real estate debt investments carried at fair value	13,367	1,897	2,972
Realized loss on sale of real estate debt investments carried at fair value	—	—	(122)
Realized loss on extinguishment of collateralized debt obligation	<u>(5,041)</u>	<u>(4,161)</u>	<u>(2,584)</u>
Total realized gain (loss) from investments, net	<u>8,320</u>	<u>(614)</u>	<u>850</u>
Unrealized gain on interest rate swaps	4,168	2,254	430
Unrealized gain on securities carried at fair value	2,424	7,065	5,310
Unrealized gain (loss) on real estate debt investments carried at fair value	2,441	(10,501)	(3,967)
Unrealized (loss) gain on collateralized debt obligation carried at fair value	<u>(37,488)</u>	<u>(2,407)</u>	<u>28,676</u>
Total unrealized (loss) gain from investments, net	<u>(28,455)</u>	<u>(3,589)</u>	<u>30,449</u>
Total unrealized and realized (loss) gain from investments	<u>(20,135)</u>	<u>(4,203)</u>	<u>31,299</u>
Net (loss) income from continuing operations	<u>(11,288)</u>	<u>4,284</u>	<u>35,896</u>
<b>Discontinued operations:</b>			
Loss from discontinued operations	(216)	(880)	(750)
Gain on extinguishment of debt related to discontinued operations	4,756	—	—
Loss on sale from discontinued operations	<u>(2,911)</u>	<u>—</u>	<u>—</u>
Total income (loss) from discontinued operations	<u>1,629</u>	<u>(880)</u>	<u>(750)</u>
Net (loss) income	<u>(9,659)</u>	<u>3,404</u>	<u>35,146</u>
Net income attributable to the non controlling interest	<u>(12)</u>	<u>(12)</u>	<u>(12)</u>
Net (loss) income attributable to members	<u>\$ (9,671)</u>	<u>\$ 3,392</u>	<u>\$ 35,134</u>

See accompanying notes to consolidated financial statements.

**CDH CDO LLC**

Consolidated Statements of Changes in Members' Capital

Years ended December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

(In thousands)

	<b>WRT CDH II LLC</b>	<b>Lexington CDH II LLC</b>	<b>Inland American (CDH II) Sub, LLC</b>	<b>Noncontrolling interest</b>	<b>Total</b>
Balance at December 31, 2010 (unaudited)	\$11,123	11,122	24,954	114	47,313
Distributions to members	(480)	(480)	(1,367)	(24)	(2,351)
Net income	<u>11,711</u>	<u>11,711</u>	<u>11,712</u>	<u>12</u>	<u>35,146</u>
Balance at December 31, 2011 (unaudited)	22,354	22,353	35,299	102	80,108
Distributions to members	(2,895)	(535)	(2,773)	(12)	(6,215)
Net income	2,261	—	1,131	12	3,404
Transfer of Ownership	<u>21,818</u>	<u>(21,818)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2012	43,538	—	33,657	102	77,297
Distributions to members	(2,041)	—	(2,399)	—	(4,440)
Net loss	(5,007)	—	(4,664)	12	(9,659)
Transfer of Ownership	<u>(6,590)</u>	<u>—</u>	<u>6,590</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2013	<u>\$29,900</u>	<u>—</u>	<u>33,184</u>	<u>114</u>	<u>63,198</u>

See accompanying notes to consolidated financial statements.

**CDH CDO LLC**

Consolidated Statements of Cash Flows

Years ended December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

(In thousands)

	<u>2013</u>	<u>2012</u> (unaudited)	<u>2011</u> (unaudited)
Cash flows from operating activities:			
Net (loss) income	\$ (9,659)	\$ 3,404	\$ 35,146
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	841	2,056	1,897
Realized gain on sale of securities carried at fair value	—	(1,690)	(6,084)
Realized loss on securities carried at fair value	6	40	5,500
Realized gain on sale of real estate debt investments carried at fair value	(13,367)	(1,897)	(2,972)
Realized loss on sale of held property	2,911	—	—
Realized loss on sale of real estate debt investments carried at fair value	—	—	122
Realized loss on extinguishment of collateralized debt obligation	5,041	4,161	2,584
Realized gain on extinguishment of debt	(4,756)	—	—
Unrealized gain on interest rate swaps	(4,168)	(2,254)	(430)
Unrealized gain on securities carried at fair value	(2,424)	(7,065)	(5,310)
Unrealized (gain) loss on real estate debt investments carried at fair value	(2,441)	10,501	3,967
Unrealized loss (gain) on collateralized debt obligations carried at fair value	37,488	2,407	(28,676)
Changes in operating assets and liabilities:			
Interest and other receivables	118	149	(403)
Other assets	1,348	(1,194)	49
Other liabilities	(3,082)	1,586	(786)
Net cash provided by operating activities	<u>7,856</u>	<u>10,204</u>	<u>4,604</u>
Cash flows from investing activities:			
Repayment of real estate debt investments carried at fair value	7,407	4,843	51,082
Proceeds from sales of securities carried at fair value	—	13,000	23,196
Proceeds from disposition of real estate debt investments	13,367	8,592	35,971
Purchase of real estate debt investments carried at fair value	—	—	(75,650)
Repayment of securities carried at fair value	42,017	3,239	9,175
Purchase of securities carried at fair value	—	—	(52,018)
Proceeds from foreclosure of property	—	—	80
Proceeds from sale of property	17,822	—	—
Purchase of fixed assets	—	(2,239)	(467)
Change in restricted cash	<u>755</u>	<u>1,136</u>	<u>40,179</u>
Net cash provided by investing activities	<u>81,368</u>	<u>28,571</u>	<u>31,548</u>
Cash flows from financing activities:			
Repayment of mortgage payable	(17,537)	(595)	(1,075)
Repayment of collateralized debt obligation carried at fair value	(67,217)	(30,754)	(28,654)
Repayment of related-party notes payable	—	—	(3,498)
Distributions to members	(4,440)	(6,203)	(2,327)
Distributions to noncontrolling interests	—	(12)	(24)
Net cash used in financing activities	<u>(89,194)</u>	<u>(37,564)</u>	<u>(35,578)</u>
Net increase in cash and cash equivalents	30	1,211	574
Cash and cash equivalents at beginning of year	<u>1,885</u>	<u>674</u>	<u>100</u>
Cash and cash equivalents at end of year	<u>\$ 1,915</u>	<u>\$ 1,885</u>	<u>\$ 674</u>

See accompanying notes to consolidated financial statements.

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**CDH CDO LLC**

## Consolidated Statements of Cash Flows

Years ended December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
		(unaudited)	(unaudited)
Supplemental cash flow information:			
Interest paid	\$ 6,778	\$ 7,175	\$ 8,950
Noncash investing and financing activities:			
Supplemental disclosure of noncash investing and financing activities:			
Restricted cash acquired	\$ —	\$ —	\$ 1,886
Land, building, and improvements	—	—	22,821
Mortgage note payable	—	—	23,963

See accompanying notes to consolidated financial statements.

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## CDH CDO LLC

### Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

#### (1) Description of Business

CDH CDO LLC (the Company) is a Delaware limited liability company that was formed on August 26, 2010. The Company is organized as a limited liability company (LLC) and at the time of formation was owned one-third each by WRT CDH II LLC (Winthrop), Lexington CDH II LLC (Lexington), and Inland American (CDH II) Sub, LLC (Inland), collectively, the Members. On May 1, 2012, Winthrop purchased the one-third interest of Lexington and now owns two-thirds of the Company. On February 25, 2013, Winthrop sold a 17% member interest in the Company to Inland. As a result of the sale, Winthrop now owns 49.67% and Inland owns 50.33% of the Company. In accordance with the sale, the Limited Liability Company Agreement of the company was amended to reflect this change in member ownership.

In connection with the formation of the Company, Inland made an initial capital contribution of \$10,635,000, which was used to acquire the Company's initial assets, 100% of the common shares of Concord Debt Funding Trust (Concord REIT), a Maryland real estate investment Trust, and other initial permitted investments acquired by the Company pursuant to its LLC agreement. This acquisition of assets and liabilities has been accounted for on a fair value basis as a result of the change of control on August 26, 2010. The remainder of the opening balance of members' capital represents the excess fair value of the Company's assets over liabilities of \$24,466,000 upon formation of the Company and was equally allocated among the Members. Winthrop is not required to make any additional capital contributions and Inland is committed to invest up to a maximum of \$14,000,000. Through its wholly owned direct and indirect subsidiaries, the Company acquires real estate whole loans and subordinate real estate debt investments such as B-notes, and mezzanine loans, and commercial real estate securities including collateralized mortgage-backed securities (CMBS), which are also referred to 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.

The Company's wholly owned subsidiary, Concord REIT, which was formed by the Company's predecessors in 2006, had a capital structure that consisted of 100,000 common shares and 102 shares of 12% cumulative redeemable preferred shares, which are characterized as noncontrolling equity interest on the balance sheet. The Company owns 100% of the common shares of Concord REIT while the preferred shares are owned by individuals associated with Winthrop and Lexington. These shares represent the noncontrolling equity interest of the Company. Concord REIT has the right to redeem the preferred shares if the Board of Trustees of Concord REIT determines that either (i) it is no longer required or necessary for the entity to qualify as a real estate investment trust (REIT) or (ii) keeping the preferred shares outstanding is no longer necessary for the entity to qualify as a REIT.

Through its subsidiaries, Concord Real Estate CDO 2006-1 Ltd (CDO-1), which wholly owns Concord Real Estate CDO 2006-1 LLC (the Co-Issuer), Concord REIT completed a nonrecourse collateralized debt obligation (CDO) transaction in December 2006 whereby certain real estate related and other assets were contributed to the CDO. Concurrent with the CDO transaction, CDO-1 and the Co-Issuer issued \$413,850,000 of investment grade floating-rate notes (the CDO-1 bonds) and \$51,150,000 of preferred shares. Concord REIT retains ownership of CDO-1's preferred shares.

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

The Company also owns 100% interest in WRP Management LLC (WRP Management), an entity that provides management services to CDO-1. WRP Management contracted with an affiliate of the Company, WRP Sub-Management LLC, to act as administrative manager to the Company.

**(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 majority owned or controlled by the Company. The Company identifies entities for which control is achieved through means other than through voting rights (a variable interest entity or VIE) 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, securities, and CDOs. 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 are considered to be cash equivalents. The Company places its cash and cash equivalents in major financial institutions.



## Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

**(e) Restricted Cash**

The Company had restricted cash of \$50,000 and \$805,000 at December 31, 2013 and 2012, respectively. The December 31, 2013 restricted cash consists of \$50,000 held by the CDO for current expenses. The December 31, 2012 restricted cash consists of \$50,000 held by the CDO for current expenses and \$755,000 held in escrow for future payments of taxes, insurance, and capital expenditures by the holder of the mortgage note payable.

**(f) Fair Value Measurements**

The Company has elected the fair value option to measure certain of the Company's financial instruments including real estate debt investments, securities, and its CDO (see notes 4, 6 and 8). 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 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. As of December 31, 2013, there is one real estate debt investment with a fair market value of \$0 on a nonaccrual basis.

**(h) Land, Building, and Improvements, net**

Land, building, and improvements 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 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 or the change in control accounted for as a business combination of real estate, the Company assesses the fair value of the acquired assets (including land, buildings, and improvements and identified intangibles such as above- or below-market leases and acquired

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

in-place leases and tenant relationships) and acquired liabilities and the Company allocates purchase price based on these assessments. The Company 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.

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.

Real estate investments and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset group may not be recoverable. Recoverability of real estate investments to be held and used is measured by comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated from the use and eventual disposition of the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments in 2013, 2012, or 2011. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of carrying amount or fair value less costs to sell. The assets and liabilities are classified separately as held-for-sale in the consolidated balance sheets and are no longer depreciated.

**Intangible Assets** 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 noncancelable periods of the respective leases. Above-market leases are recorded as part of intangible assets and amortized as a direct charge against rental revenue over the noncancelable portion of the respective leases. In-place lease values are based upon the Company'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.

(i) ***Derivative Instruments and Hedging Activities***

The Company accounts for derivatives and hedging activities on the balance sheet at their respective fair values. On the date a derivative contract is entered into, the Company designates the derivative as either (1) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge) or as (2) a derivative trading instrument.

## Notes to Consolidated Financial Statements

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There were no derivative contracts accounted for as hedges. The Company carries derivatives at their respective fair value on the balance sheet and recognizes any subsequent changes in fair value in its statement of operations.

(j) **Members' Capital**

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

(k) **Revenue Recognition**

The Company accounts for its leases with tenants as operating leases with rental revenue recognized on a straight-line basis over the minimum noncancelable term of the lease. The straight-line rent adjustment increased revenue by \$205,000, \$519,000 and \$57,000 in 2013, 2012, and 2011 respectively, over actual cash received.

Leases typically provide for reimbursement to the Company of common area maintenance costs, real estate taxes, and other operating expenses. Operating expense reimbursements are recognized as earned.

The Company recognizes lease termination payments as a component of rental revenue in the period received, provided that the Company has no further obligations under the lease; otherwise, the lease termination payment is amortized on a straight-line basis over the remaining obligation. There were no lease termination payments received in 2013, 2012, and 2011.

(l) **Income Taxes**

Concord REIT is organized and conducts its operations to qualify as a REIT and to comply with the provisions of the Internal Revenue Code with respect thereto. A real estate investment trust is generally not subject to federal income tax on the portion of its REIT taxable income, which is distributed to its shareholders, provided that at least 90% of taxable income is distributed and certain other requirements are met. Additionally, 75% of a REIT's gross income must be derived from interest on obligations secured by mortgages on real property or on interests in real property.

Taxes on income, as applicable, are the responsibility of the individual members. Accordingly, no provision for federal or state income taxes has been recorded.

The Company reviews its tax positions under accounting guidance that requires that a tax position may only be recognized in the financial statements if it is more likely than not that the tax position will prevail if challenged by tax authorities. The Company believes it is more likely than not that our tax positions will be sustained in any tax examination. We have no income tax expense, deferred tax assets, or deferred tax liabilities associated with any such uncertain tax positions for the operations of any entity included in the consolidated results of operations.

(m) **Recently Issued Accounting Standards**

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

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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 are effective for annual reporting periods beginning on or after January 1, 2013. The new disclosures are required for all prior comparative periods presented. The adoption did not have a material impact on the Company's consolidated financial statements.

**(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 statement 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 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.

***Fair Value Option***

The Company elects the fair value option for real estate debt investments, securities, and CDOs at the Company's inception and on an ongoing basis. 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.

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

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:

**(a) 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.

**(b) 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 considers 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.

**(c) Collateralized Debt Obligation**

The Company uses a third-party pricing model to establish values for the CDO. The model derives value through a discounted cash flow methodology that considers credit risk factors and discount rate assumptions. Management also performs further analysis giving consideration to one or more of the following criteria as appropriate: (i) interest rates for liabilities of comparable quality and maturity, (ii) the value and performance of the underlying collateral, (iii) local, industry, and broader economic trends and factors, and (iv) recent market transactions. Because significant judgment is used in the ultimate determination of fair value, this valuation methodology has been characterized as Level 3 in the fair value hierarchy.

**(d) Derivative Financial Instruments**

The Company has determined that the inputs used to value its derivatives fall primarily within Level 2 of the fair value hierarchy. Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, and implied volatilities.

CDH CDO LLC

Notes to Consolidated Financial Statements

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

(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, 2013 and 2012 (in thousands):

	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance at December 31, 2013
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,915	—	—	1,915
Restricted cash	50	—	—	50
Real estate debt investments	—	—	180,094	180,094
Securities	—	—	56,395	56,395
<b>Liabilities:</b>				
Collateralized debt obligation	\$ —	—	166,657	166,657
Derivatives	—	7,245	—	7,245

CDH CDO LLC

Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

	Quoted prices in active markets for identical assets and liabilities (Level 1) (unaudited)	Significant other observable inputs (Level 2) (unaudited)	Significant unobservable inputs (Level 3) (unaudited)	Balance at December 31, 2012 (unaudited)
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,885	—	—	1,885
Restricted cash	805	—	—	805
Real estate debt investments	—	—	185,060	185,060
Securities	—	—	95,994	95,994
<b>Liabilities:</b>				
Collateralized debt obligation	\$ —	—	191,345	191,345
Derivatives	—	11,413	—	11,413

CDH CDO LLC

Notes to Consolidated Financial Statements

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(f) **Changes in Level 3 Fair Value Measurements**

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2013 and 2012 (in thousands):

	<b>Real estate debt investments</b>	<b>Securities</b>	<b>Collateralized debt obligations</b>
Fair value, December 31, 2010 (unaudited)	\$ 219,619	77,977	(270,277)
Total unrealized and realized gains (losses)	(1,117)	5,894	26,092
Repayments of real estate debt investments and securities	(51,082)	(9,175)	—
Repayment on collateralized debt obligation	—	—	28,654
Purchase of real estate debt investments and securities	75,650	52,018	—
Sale of real estate debt investments and securities	(35,971)	(23,196)	—
Fair value, December 31, 2011 (unaudited)	207,099	103,518	(215,531)
Total unrealized and realized gains (losses)	(8,604)	8,715	(6,568)
Repayments of real estate debt investments and securities	(4,843)	(3,239)	—
Repayment on collateralized debt obligation	—	—	30,754
Purchase of real estate debt investments and securities	—	—	—
Sale of real estate debt investments and securities	(8,592)	(13,000)	—
Fair value, December 31, 2012	185,060	95,994	(191,345)



**CDH CDO LLC**

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	<u>Real estate debt investments</u>	<u>Securities</u>	<u>Collateralized debt obligations</u>
Total unrealized and realized gains (losses)	\$ 15,808	2,418	(42,529)
Repayments of real estate debt investments and securities	(7,407)	(42,017)	—
Repayment on collateralized debt obligation	—	—	67,217
Purchase of real estate debt investments and securities	—	—	—
Sale of real estate debt investments and securities	(13,367)	—	—
Fair value, December 31, 2013	<u>\$ 180,094</u>	<u>56,395</u>	<u>(166,657)</u>
Change in unrealized gain/(loss) included in earnings related to investments and obligations still held at December 31, 2013	\$ 2,474	2,636	(37,488)
Change in unrealized gain/(loss) included in earnings related to the investments still held at December 31, 2012 (unaudited)	(10,501)	7,065	(2,407)
Change in unrealized gain/(loss) included in earnings related to investments and obligations still held at December 31, 2011 (unaudited)	(3,967)	5,310	28,676

The Company received a payment amounting to \$13,367 in the year ended December 31, 2013 from one real estate debt investments that had been previously written off, and had a fair value of \$0 at December 31, 2012.

The following table presents additional quantitative information at December 31, 2013, about assets measured at fair value on a recurring and nonrecurring basis for which the Company has utilized Level 3 significant unobservable inputs to determine fair value (dollars in thousands).

<u>December 31, 2013</u>					
<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	\$ 180,094	Discounted cash flow	Discount rate	4.17% to 7.92%	6.21%
Securities	56,395	Discounted cash flow	Discount rate	0.73% to 72.99%	8.09%
Collateralized debt obligations	(166,657)	Discounted cash flow	Discount rate	14.39% to 37.34%	18.50%

# CDH CDO LLC

## Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

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

December 31, 2012 (unaudited)					
<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	\$ 185,060	Discounted cash flow	Discount rate	4.20% to 12.40%	6.85%
Securities	95,994	Discounted cash flow	Discount rate	1% to 111%	8.95%
Collateralized debt obligations	(191,345)	Discounted cash flow	Discount rate	12% to 143%	15.16%

**(g) 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, 2013 and 2012.

**(h) Fair Value of Financial Instruments**

All financial instruments on the Company's consolidated balance sheets are carried at fair value.

**(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 their estimated fair value. Whole loans are loans to borrowers who are typically seeking capital for use in property acquisition and are predominantly collateralized by first mortgage liens on real property. B-notes are junior positions of whole loans. Mezzanine loans are loans that are subordinate to a conventional first mortgage loan, including B-notes and senior to the borrower's equity in a transaction. These loans may be in the form of a junior participating interest in the senior debt. Mezzanine financing may take the form of loans collateralized by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans collateralized by second mortgage liens on the property.

The following tables are a summary of the Company's real estate debt investments at December 31, 2013 and 2012 (in thousands):

	2013	
	<u>Real estate debt investments at fair value</u>	<u>Loan count</u>
Whole loans	\$ 71,900	4
B-notes	39,586	4
Mezzanine loans	68,608	4
Total loans	<u>\$ 180,094</u>	<u>12</u>

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Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

	<u>2012 (unaudited)</u>	
	<u>Real estate debt investments</u>	
	<u>at fair value</u>	<u>Loan count</u>
Whole loans	\$ 75,929	5
B-notes	39,614	5
Mezzanine loans	69,517	4
Total loans	<u>\$ 185,060</u>	<u>14</u>

The following table sets forth the maturity dates for the Company's real estate debt investments at December 31, 2013 and 2012 (in thousands):

<u>December 31, 2013</u>	<u>Number of loan assets maturing</u>	<u>Par value (2)</u>	<u>Fair value (3)</u>	<u>Percentage of total</u>
Year of maturity (1):				
2014	5	\$100,594	72,655	41%
2015	3	49,463	34,980	19
2016	3	60,625	63,155	35
2017	—	—	—	—
2018 and thereafter	<u>1</u>	<u>10,000</u>	<u>9,304</u>	<u>5</u>
Total real estate debt investments	<u>12</u>	<u>\$220,682</u>	<u>180,094</u>	<u>100%</u>

- (1) The December 31, 2013 weighted average maturity is 1.54 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 1.54 years.
- (2) At December 31, 2013, included in the par value amounts are two loans with an aggregate par value of \$43,159 which have been written down to \$0.
- (3) Of the 12 real estate debt investments, there is one loan that is not performing and its fair value is \$0. The remaining 11 loans included in the fair value at December 31, 2013 are performing loans.

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Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

<u>December 31, 2012</u>	<u>Number of</u> <u>loan assets</u> <u>maturing</u> <u>(unaudited)</u>	<u>Par</u> <u>value (2)</u> <u>(unaudited)</u>	<u>Fair</u> <u>value (3)</u> <u>(unaudited)</u>	<u>Percentage</u> <u>of total</u> <u>(unaudited)</u>
Year of maturity (1):				
2013	4	\$ 65,444	21,299	12%
2014	2	51,500	49,704	27
2015	4	54,043	39,547	21
2016	3	63,450	65,966	36
2017 and thereafter	1	10,000	8,544	4
Total real estate debt investments	14	\$244,437	185,060	100%

- (1) The December 31, 2012 weighted average maturity is 2.17 years. The calculation of weighted average maturity is based upon the remaining initial term and does not take into account any maturity extension period or the ability to prepay the investment after a negotiated lock-out period, which may be available to the borrower. The weighted average maturity with the exercise of any extension options is 2.24 years.
- (2) At December 31, 2012, included in the par value amounts are three loans with an aggregate par value of \$59,509 which have been written down to \$0.
- (3) Of the 14 real estate debt investments, there are two loans that are not performing and their fair value is \$0. The remaining 12 loans included in the fair value at December 31, 2012 are performing loans.

During the year ended December 31, 2013, the Company sold one loan for total proceeds of \$13,367. The Company recognized a net realized gain of \$13,367 from the sale in the year. The Company had previously recognized an accumulated unrealized loss of \$16,350 related to this loan as of the beginning of the year.

During the year ended December 31, 2012, the Company sold two loans for total proceeds of \$8,592. The Company recognized a net realized gain of \$292 from the sale in the year. The Company had previously recognized an accumulated unrealized loss of \$3,700 related to this loan as of the beginning of the year.

**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.

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Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

The Company's real estate debt investments contain concentrations in the following asset types, categorized by industry as a percentage of the unpaid principal balance and fair value of real estate debt investments as of December 31, 2013 and 2012:

<u>Asset type</u>	<u>2013</u>	
	<u>Unpaid principal balance</u>	<u>Fair value</u>
Office	46%	58%
Hospitality	37	29
Mixed use	10	13
Industrial	7	—
Total	100%	100%

<u>Asset type</u>	<u>2012</u> (unaudited)	
	<u>Unpaid principal balance</u>	<u>Fair value</u>
Office	50%	57%
Hospitality	33	28
Mixed use	8	2
Industrial	9	13
Total	100%	100%

As of December 31, 2013, two loans exceeded 10% of the Company's assets, and for the year ended December 31, 2013, three loans generated more than 10% of the Company's revenue. As of December 31, 2012, two loans exceeded 10% of the Company's assets, and for the year ended December 31, 2012, three loans generated more than 10% of the Company's revenue.

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

**(5) Land, Building, and Improvements and Related-Party Note Payable**

On April 1, 2011, the Company obtained control of an office building located in San Antonio, Texas which it accounted for as a business combination. The previous owner of the property was in default of their financial covenants and the mortgage loan was in special servicing. Since the controlling holder of the debt was a related party, a modification was negotiated where the Company would become the successor borrower, the maturity would include two-one-year extension options subject to a 6% Debt Yield Test (tested only to the Senior Participation) and monthly pay downs to the Senior Participation to the extent of available excess cash. As a result of the change in control, the Company consolidated the operations of the property. The fair value of the assets and liabilities was calculated by an independent third-party valuation firm and reviewed by management. The assets and liabilities at the time the company obtained control were allocated as follows (in thousands):

	<u>Amount</u>
Land, building, and improvements	\$ 18,049
In-place lease value	1,703
Above-market leases	354
Below-market leases	(258)
In-place tenant relationship	2,303
Other intangibles	411
Accounts receivable and other assets	90
Cash and restricted cash	1,966
Mortgage note payable	(23,963)
Accounts payable and accrued liabilities	(655)

The property was sold on August 29, 2013 and the mortgage note payable was settled for \$17,537,000 which resulted in a realized gain on the extinguishment of debt of \$4,756,000. A loss on the sale of the property and write off of the related assets and liabilities of \$2,911,000 was recognized.

The Company had purchased an interest rate cap (the Cap) that matured on July 31, 2013. The Cap effectively fixed the interest rate on the mortgage note payable at 2% per annum on a notational amount of \$22,417,000.

The Company held no land, building, improvements or intangible assets at December 31, 2013. The Company held Intangible Assets with a gross carrying value \$4,513,000 at December 31, 2012. The Intangible Assets had accumulated amortization of \$2,848,000 at December 31, 2012.

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Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

Major classes of fixed assets at December 31, 2012 are as follows (in thousands):

	<u>2012</u> (unaudited)
Land	\$ 11,779
Building	5,363
Building improvements	878
Tenant improvements	2,720
Construction in progress	113
Less accumulated depreciation	(944)
Net land, building, and improvements	<u>\$ 19,909</u>

Amortization expense was \$522,888 and \$1,607,369 for the years ended December 31, 2013 and December 31, 2012, respectively.

(6) Securities Carried at Fair Value

The Company has a portfolio of loan securities that included 9 investments in pool bonds and 1 investment in a rake bond at December 31, 2013, and 14 investments in pool bonds and 1 investment in a rake bond at December 31, 2012. These bonds are marked to fair value on a continuous basis.

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

		<u>2013</u>			
		<u>Unrealized</u>		<u>Unrealized</u>	
		<u>Par value</u>	<u>Cost basis</u>	<u>gains</u>	<u>loss</u>
					<u>Fair value</u>
<b>CMBS:</b>					
Rake bonds		\$ 10,508	10,722	35	—
Pool bonds		49,743	43,037	3,192	(591)
Total securities at fair value		<u>\$ 60,251</u>	<u>53,759</u>	<u>3,227</u>	<u>(591)</u>
					<u>56,395</u>
		<u>2012 (unaudited)</u>			
		<u>Unrealized</u>		<u>Unrealized</u>	
		<u>Par value</u>	<u>Cost basis</u>	<u>gains</u>	<u>loss</u>
					<u>Fair value</u>
<b>CMBS:</b>					
Rake bonds		\$ 10,719	11,047	—	(114)
Pool bonds		101,680	77,882	7,533	(354)
Total securities at fair value		<u>\$112,399</u>	<u>88,929</u>	<u>7,533</u>	<u>(468)</u>
					<u>95,994</u>

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Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

The tables below show the fair value of investments in securities that have been in an unrealized loss position for less than 12 months or for 12 months or longer at December 31, 2013 and 2012 (in thousands):

	2013					
	Less than 12 months		12 months or longer		Total	
	Gross unrealized		Gross unrealized		Gross unrealized	
	Fair value	losses	Fair value	losses	Fair value	losses
<b>CMBS:</b>						
Rake bonds	\$ —	—	—	—	—	—
Pool bonds	34,849	(591)	—	—	34,849	(591)
Total securities	<u>\$ 34,849</u>	<u>(591)</u>	<u>—</u>	<u>—</u>	<u>34,849</u>	<u>(591)</u>
	2012 (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
<b>CMBS:</b>						
Rake bonds	\$ 10,933	(114)	—	—	10,933	(114)
Pool bonds	—	—	510	(354)	510	(354)
Total securities	<u>\$ 10,933</u>	<u>(114)</u>	<u>510</u>	<u>(354)</u>	<u>11,443</u>	<u>(468)</u>

The following tables present the amortized cost and fair value of securities by contractual maturity dates as of December 31, 2013 and 2012 (in thousands):

	2013	
	Cost	Fair value
<b>CMBS – rake bonds:</b>		
Due within 1 year	\$ —	—
After 1 but within 5 years	10,722	10,757
Total CMBS – rake bonds	10,722	10,757
<b>CMBS – pool bonds:</b>		
Due within 1 year	2,647	2,855
After 1 but within 5 years	29,327	32,208
After 5 but within 10 years	11,063	10,575
Total CMBS – pool bonds	43,037	45,638
Total securities	<u>\$53,759</u>	<u>56,395</u>



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Notes to Consolidated Financial Statements

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	2012 (unaudited)	
	Cost	Fair value
CMBS – rake bonds:		
Due within 1 year	\$ —	—
After 1 but within 5 years	11,047	10,933
Total CMBS – rake bonds	11,047	10,933
CMBS – pool bonds:		
Due within 1 year	653	925
After 1 but within 5 years	27,843	28,885
After 5 but within 10 years	49,386	55,251
Total CMBS – pool bonds	77,882	85,061
Total securities	\$88,929	95,994

Changes in fair value of securities are reflected in the consolidated statements of operations as unrealized gain or losses on securities. During the year ended December 31, 2013, the Company received payoffs of five securities for total proceeds of \$35,000,000. The Company had recognized an accumulated unrealized gain of \$200,000 at the beginning of the year related to these securities.

(7) **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 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 VIE 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 also defined as a reconsideration event.

At December 31, 2013 and 2012, the Company identified two real estate debt investments and one security with an aggregate carrying value of zero to be variable interests in VIEs. These investments were deemed VIEs primarily based on the fact that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company has determined that it is not the primary beneficiary of the VIEs as it does not have voting or other rights that allow the Company to exercise control over the borrower entity nor do they have participation features that would require the Company to absorb expected losses or be entitled to receive expected residual returns of the borrower entity.

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**(8) Collateralized Debt Obligation**

As of December 31, 2013 and 2012, the CDO-1 bonds, which represent the Company's CDO, have a consolidated outstanding principal balance of \$192,648,000 and \$259,865,000 and a fair value of \$166,657,000 and \$191,345,000, respectively. The CDO is collateralized by assets, consisting primarily of whole loans, B-notes, mezzanine loans, and securities with an aggregate par value of approximately \$291,639,492 (fair value of \$236,489,713) at December 31, 2013, which serves as collateral for the CDO-1 bonds.

The seven investment grade tranches of the CDO-1 bonds were issued with floating rate coupons with a combined weighted average rate of 0.7163% and 0.6921% at December 31, 2013 and 2012, respectively, and have a maturity of December 21, 2016. The seven investment grade tranches are treated as a secured financing and are nonrecourse to the Company. Interest proceeds received from investments collateralizing the CDO-1 bonds are distributed to holders of the CDO notes on a monthly basis.

The following tables present the Company's CDO at December 31, 2013 and 2012 (in thousands):

	Notes and certificates originally issued	Outstanding balance at December 31, 2013	Borrowing spread to LIBOR	Unaudited Ratings (Moody's/ S&P)
Class A-1	\$202,275	76,398	0.28%	A1/BB+
Class A-2	23,250	23,250	0.34	Baa3/BB
Class B	46,500	46,500	0.41	Ba3/B-
Class C	20,925	10,000	0.45	B2/CCC+
Class D	37,200	6,000	0.75	Caa1/CCC-
Class E	22,087	8,087	1.20	Caa2/CCC-
Class F	24,413	22,413	1.75	Caa3/CCC-
Total notes	376,650	192,648		
Class G (trust certificates)	18,600	—	N/A	
Class H (trust certificates)	18,600	—	N/A	
Total	<u>\$413,850</u>	<u>192,648</u>		

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Notes to Consolidated Financial Statements

December 31, 2013, 2012 (unaudited) and 2011 (unaudited)

	Notes and certificates  originally issued (unaudited)	Outstanding balance at December 31,  2012 (unaudited)	Borrowing  spread to LIBOR (unaudited)	Unaudited Ratings (Moody's/ S&P) (unaudited)
Class A-1	\$202,275	143,615	0.28%	A1/BBB
Class A-2	23,250	23,250	0.34	Baa3/BB
Class B	46,500	46,500	0.41	Ba3/B-
Class C	20,925	10,000	0.45	B2/CCC+
Class D	37,200	6,000	0.75	Caa1/CCC-
Class E	22,087	8,087	1.20	Caa2/CCC-
Class F	24,413	22,413	1.75	Caa3/CCC-
Total notes	376,650	259,865		
Class G (trust certificates)	18,600	—	N/A	
Class H (trust certificates)	18,600	—	N/A	
Total	\$413,850	259,865		

CDO-1 is subject to covenants that are both financial and nonfinancial in nature. Significant covenants include cash coverage and collateral quality tests. CDO-1 was in compliance with its financial covenants at December 31, 2013 and 2012. On February 4, 2013, the Thanksgiving Loan defaulted due to foreclosure. Due to this default, the par value test was not satisfied which resulted in interest payments that otherwise would be payable to the Class D, E, and F being used to amortize the Class A-1 Notes. The Thanksgiving loan was sold on July 5, 2013 and the par value test was satisfied on the note valuation report dated July 25, 2013. The CDO matures on December 21, 2016.

**(9) Derivative Financial Instruments**

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and expected cash amounts, the value of which is determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings. The notional amounts of these agreements were \$137,887,000 at December 31, 2013 and 2012.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. The Company's interest rate swaps are not designated as cash flow hedges. Interest expense related to these interest rate swaps amounted to \$4,678,000 and \$4,677,000 in 2013 and 2012, respectively, and is included in interest expense on the consolidated statements of operations.

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Changes in the fair value of derivatives are recorded directly to earnings and the Company recognized \$4,168,000 and \$2,254,000 of unrealized gain for the years ended December 31, 2013 and 2012, respectively. The tables below present the fair value of the Company's derivative financial instruments as presented on the consolidated balance sheets as of December 31, 2013 and 2012 (in thousands):

	Balance sheet location	Liability derivatives			
		Fair value		Notional amount	
		December 31,	December 31,	December 31,	December 31,
		2013	2012 (unaudited)	2013	2012 (unaudited)
Derivatives not designated as hedging instruments:					
Interest rate cap	Derivative				
	liabilities	\$ —	—	—	22,417
Interest rate swaps	Derivative				
	liabilities	7,245	11,413	137,887	137,887
Total derivatives not designated as hedging instruments		\$ 7,245	11,413	137,887	160,304

	Fair values of derivative instruments	
	Location of gain (loss) recognized in income on derivative	Amount of gain (loss) recognized in income on derivative
Derivatives not designated as hedging instruments:		
Interest rate swaps	Unrealized gain on interest rate swaps	<u>\$ 4,168,000</u>
Total derivative fair value gains – net		<u>\$ 4,168,000</u>

(10) Dividends

In order for the Company's consolidated subsidiary, Concord REIT, to maintain its status as a REIT, it must distribute, at a minimum, an amount equal to 90% of its taxable income to its shareholders. For the years ended December 31, 2013 and 2012, dividends comprised 100% ordinary dividends. Because taxable income differs from cash flow from operations due to noncash revenues and expenses, the Company may generate operating cash flow in amounts below or in excess of its dividends.

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At December 31, 2013 and 2012, the Company's members' capital was \$51,370,598 and \$49,755,800 for federal tax reporting purposes as compared to \$63,084,000 and \$77,196,000 for financial reporting purposes, respectively.

**(11) Related-Party Transactions**

For the years ended December 31, 2013, 2012 and 2011, the Company paid advancing agent fees to Concord Debt Holdings LLC in the amount of \$41,000, \$48,000 and \$57,000, respectively.

The Company has accrued fees of \$250,000 for the years ended December 31, 2013, 2012 and 2011, respectively, due to WRP Sub-Management LLC, an affiliate of Winthrop for providing administrative and management services.

During 2013 and 2012, the Company received advances for tenant improvements from a related third party. These advances will increase the mortgage debt upon completion of the improvements.

On October 6, 2011, the Company purchased from an affiliate of Winthrop a \$14,000,000 real estate debt investment at par, bearing interest at LIBOR + 3.00%.

During 2011, the Company purchased Class E notes of CDO-1's CDO for \$748,000 with a carrying value of \$675,000 and a face value of \$9,000,000 from an affiliate of Winthrop. Those notes were subsequently canceled.

During 2011, the Company reimbursed an affiliate of Winthrop \$3,498,000 for an unsecured loan with carrying amount of \$3,498,000 at December 31, 2010, along with accrued interest at a rate of 12%.

**(12) Commitments and Contingencies**

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

In January 2010, the trustee for CDO-1 refused to cancel the CDO-1 bonds held by Concord REIT. CDO-1 brought an action in the Delaware Court of Chancery (the Court) seeking declaratory relief that the bonds held by Concord REIT should be canceled and no longer remain outstanding. If the bonds remain outstanding obligations, CDO-1 will not satisfy certain of its par value tests. This would result in funds available for interest payments and distributions on certain of the CDO-1 bonds being used instead to redeem the most senior class of CDO-1 bonds, thereby reducing the cash flow to Concord REIT from

The parties in the action brought cross summary judgment motions, which were heard on April 21, 2010. On May 14, 2010, the Court ruled in favor of CDO-1 and issued a ruling that the bonds be deemed canceled effective January 2010. However, on June 14, 2010, the trustee for CDO-1 issued a notice to appeal the Court's ruling. On March 4, 2011, the Court ruled in favor of the Concord REIT. The Delaware Supreme Court affirmed the Court's ruling that the bonds submitted for cancellation should be deemed no longer outstanding effective January 2010.

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## CDH CDO LLC

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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 an underlying asset.

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 was characterized as restricted funds. Management believes that the likelihood of a claim on such amounts is remote. As of December 31, 2013, this litigation has been resolved in favor of the plaintiffs and the company was reimbursed \$463,000 of legal fees incurred due to this litigation.

#### **(13) Subsequent Events**

In connection with the preparation of the consolidated financial statements, the Company evaluated subsequent events after the consolidated balance sheet date of December 31, 2013 through March 11, 2014, which was the date the consolidated financial statements were available to be issued.

**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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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 statements of operations, partners' capital, and cash flows of Sealy Northwest Atlanta Partners, L.P. (the "Partnership") for the year ended December 31, 2011. 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 results of operations and cash flows of the Partnership for the year ended December 31, 2011, 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, 2013 (UNAUDITED) AND 2012 (UNAUDITED)**

	2013 (UNAUDITED)	2012 (UNAUDITED)
<b><u>ASSETS</u></b>		
<b>PROPERTY AND EQUIPMENT</b>		
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	2,863,862	2,639,925
Total property and equipment, at cost	37,479,980	37,256,043
Less accumulated depreciation	(8,318,167)	(7,290,673)
Total property and equipment, net	29,161,813	29,965,370
<b>CASH AND CASH EQUIVALENTS</b>	357,754	274,847
<b>RESTRICTED CASH</b>	469,013	436,738
<b>OTHER ASSETS</b>		
Deferred rent receivable	562,957	534,872
Deferred financing costs, net of accumulated amortization of \$344,734 and \$194,118 for 2013 and 2012	257,728	408,344
Prepaid expenses and other assets	28,871	37,391
Tenant rent receivable, net	123,260	96,311
Due from related parties	7,700	4,450
Deferred leasing costs, net of accumulated amortization of \$506,729 and \$570,058 for 2013 and 2012	424,990	354,609
Total other assets	1,405,506	1,435,977
<b>TOTAL ASSETS</b>	<b><u>\$ 31,394,086</u></b>	<b><u>\$ 32,112,932</u></b>
<b><u>LIABILITIES AND PARTNERS' CAPITAL</u></b>		
<b>LIABILITIES</b>		
Note payable	\$ 13,592,486	\$ 13,773,007
Accrued interest payable	65,548	—
Accounts payable and accrued expenses	139,720	38,286
Unearned revenues	179,157	117,911
Tenant security deposits	179,205	156,563
Total liabilities	14,156,116	14,085,767
<b>PARTNERS' CAPITAL</b>	\$ 17,237,970	\$ 18,027,165
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b><u>\$ 31,394,086</u></b>	<b><u>\$ 32,112,932</u></b>

See accompanying notes to the consolidated financial statements.

**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED) AND 2011**

	2013 (UNAUDITED)	2012 (UNAUDITED)	2011
<b>REVENUES</b>			
Minimum rent	\$ 2,207,700	\$ 2,236,500	\$ 2,516,602
Tenant Reimbursements	413,222	412,146	444,610
Total revenues	<u>\$ 2,620,922</u>	<u>\$ 2,648,646</u>	<u>\$ 2,961,212</u>
<b>OPERATING EXPENSES</b>			
Depreciation and amortization	1,142,951	1,245,585	1,133,838
Repairs and maintenance	541,086	358,578	432,170
Property taxes	325,868	346,471	330,234
General and administrative	182,917	190,058	146,133
Utilities	158,068	153,964	144,031
Management fees	93,174	94,331	106,154
Insurance	59,405	62,845	66,672
Bad debt	64,769	—	23,536
Total operating expenses	<u>2,568,238</u>	<u>2,451,832</u>	<u>2,382,768</u>
<b>OPERATING INCOME</b>	<u>52,684</u>	<u>196,814</u>	<u>578,444</u>
<b>OTHER INCOME (EXPENSE)</b>			
Gain on extinguishment of debt and accrued interest	—	—	9,158,571
Other income	85,841	13,706	16,292
Interest expense	<u>(927,720)</u>	<u>(956,213)</u>	<u>(2,188,044)</u>
Total other income (expense)	<u>(841,879)</u>	<u>(942,507)</u>	<u>6,986,819</u>
<b>NET INCOME (LOSS)</b>	<u><u>\$ (789,195)</u></u>	<u><u>\$ (745,693)</u></u>	<u><u>\$ 7,565,263</u></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, 2013 (UNAUDITED), 2012 (UNAUDITED) AND 2011**

	Sealy Northwest Atlanta Ventures, L.P.	WRT-Atlanta, L.L.C.	Total
<b>BALANCE, DECEMBER 31, 2010 (UNAUDITED)</b>	<b>\$ 1,413,038</b>	<b>\$ 2,119,557</b>	<b>\$ 3,532,595</b>
Contribution	3,100,000	4,650,000	7,750,000
Net Income	3,026,105	4,539,158	7,565,263
<b>BALANCE, DECEMBER 31, 2011</b>	<b>7,539,143</b>	<b>11,308,715</b>	<b>18,847,858</b>
Distribution	(30,000)	(45,000)	(75,000)
Net Income	(298,277)	(447,416)	(745,693)
<b>BALANCE, DECEMBER 31, 2012 (UNAUDITED)</b>	<b>7,210,866</b>	<b>10,816,299</b>	<b>18,027,165</b>
Net Loss	(315,678)	(473,517)	(789,195)
<b>BALANCE, DECEMBER 31, 2013 (UNAUDITED)</b>	<b><u>\$ 6,895,188</u></b>	<b><u>\$10,342,782</u></b>	<b><u>\$17,237,970</u></b>

See accompanying notes to the consolidated financial statements.

**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED) AND 2011**

	2013 (UNAUDITED)	2012 (UNAUDITED)	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (789,195)	\$ (745,693)	\$ 7,565,263
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	1,027,494	1,128,287	1,019,138
Bad Debt Expense	64,769	—	23,536
Amortization of acquired intangibles	—	—	—
Amortization of deferred financing costs	150,616	150,615	54,112
Amortization of deferred leasing costs	115,457	117,295	114,700
Gain on extinguishment of debt and accrued interest	—	—	(9,158,571)
Changes in assets and liabilities:			
Restricted cash	(32,275)	(291,786)	254,350
Deferred rent receivable	(28,085)	(586)	(84,245)
Prepaid expenses and other assets	8,519	44,963	17,600
Tenant rent receivable	(91,718)	(96,311)	43,869
Other receivables	—	37,826	(37,826)
Due from related parties	(3,250)	(500)	7,450
Deferred leasing costs paid	(185,838)	(44,593)	(152,359)
Accrued interest	65,548	(67,828)	1,290,730
Accounts payable and accrued expenses	101,435	(95,135)	108,148
Due to related parties	—	(386)	386
Unearned revenues	61,246	(6,074)	(51,668)
Tenant security deposits	22,642	(4,703)	4,370
Net cash provided by (used in) operating activities	<u>487,365</u>	<u>125,391</u>	<u>1,018,983</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	<u>(223,937)</u>	<u>(189,231)</u>	<u>(221,761)</u>
Net cash used in investing activities	<u>(223,937)</u>	<u>(189,231)</u>	<u>(221,761)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Contributions from partners	—	—	3,100,000
Deferred financing costs paid	—	—	(602,463)
Payments on note payable	(180,521)	(196,876)	(3,130,117)
Distributions to partners	—	(75,000)	—
Net cash used in financing activities	<u>(180,521)</u>	<u>(271,876)</u>	<u>(632,580)</u>
Change in cash and cash equivalents	82,907	(335,716)	164,642
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	274,847	610,563	445,921
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 357,754</u>	<u>\$ 274,847</u>	<u>\$ 610,563</u>
Cash paid during the year for interest	<u>\$ 711,556</u>	<u>\$ 805,598</u>	<u>\$ 843,192</u>

See accompanying notes to the consolidated financial statements.

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**SEALY NORTHWEST ATLANTA, L.P.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED) AND 2011**

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**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.

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**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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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.

See accompanying notes to the consolidated financial statements.

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**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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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.

See accompanying notes to the consolidated financial statements.



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**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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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, 2013, 2012, and 2011 was \$1,027,494, \$1,128,287, and \$1,019,138, 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.

**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, 2013 and

See accompanying notes to the consolidated financial statements.

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**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2012. 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, 2013 and 2012 was \$-0-, respectively. Bad debt expense for the years ended December 31, 2013, 2012, and 2011 was \$64,769, \$-0-, \$23,536, 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, 2010. 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, 2013, and 2012, 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, 2013, 2012, and 2011.

Subsequent events - Management has evaluated subsequent events through March 3, 2014.

See accompanying notes to the consolidated financial statements.

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**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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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 \$150,616, \$150,615, and \$54,112 for the years ended December 31, 2013, 2012, and 2011.

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	<u>107,112</u>
	<u>\$257,728</u>

Amortization of deferred leasing costs was \$115,457, \$117,295, and \$114,700 for the years ended December, 2013, 2012, and 2011, respectively. An additional \$19,497, \$31,646, and \$18,090 of commissions was expensed in 2013, 2012, and 2011, 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 lives of the leases:

Year Ending December 31,	
2014	\$109,341
2015	100,221
2016	78,755
2017	46,968
2018	41,005
Thereafter	<u>48,700</u>
	<u>\$424,990</u>

See accompanying notes to the consolidated financial statements.

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**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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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, 2013, 2012 and 2011 were \$93,174, \$94,331, and \$106,154, respectively. As of December 31, 2013 and 2012, there were \$-0- of accrued management fees. 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, 2013, 2012 and 2011 were \$70,841, \$25,855, and \$49,418, 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.

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, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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 0.20% at December 31, 2013, 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. None of these funds have been disbursed as of December 31, 2013. 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, 2013:

<u>Year Ending December 31,</u>	
2014	178,056
2015	<u>13,414,430</u>
	<u>\$13,592,486</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, 2013 are as follows:

<u>Years Ending December 31,</u>	
2014	1,986,426
2015	1,613,647
2016	1,354,863
2017	865,170
2018	745,572
Thereafter	<u>1,118,908</u>
	<u>\$7,684,586</u>

See accompanying notes to the consolidated financial statements.

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**SEALY NORTHWEST ATLANTA PARTNERS, L.P.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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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.

See accompanying notes to the consolidated financial statements.

**SEALY NEWMARKET GENERAL PARTNERSHIP**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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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 statements of operations, partners' capital, and cash flows of Sealy Newmarket General Partnership (the "Partnership") for the year then ended December 31, 2011. 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 results of operations and cash flows of the Partnership for the year then ended December 31, 2011 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 6 to the consolidated financial statements, the Partnership has suffered a significant decline in operating cash flow from operations and recurring net losses. In addition, the Partnership's sole operating asset was foreclosed during the year ended December 31, 2013. These factors 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 6. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 7 and above, the Partnership's sole operating asset was foreclosed during the year ended December 31, 2013. Due to this foreclosure, the results of operations and cash flows resulting from the foreclosed assets have been presented as discontinued operations for the year ended December 31, 2011.

/s/ Frazier & Deeter, LLC

March 14, 2014  
Atlanta, Georgia

**SEALY NEWMARKET GENERAL PARTNERSHIP**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2013 (UNAUDITED) AND 2012 (UNAUDITED)**

<b><u>ASSETS</u></b>		
	2013 <u>(UNAUDITED)</u>	2012 <u>(UNAUDITED)</u>
<b>PROPERTY AND EQUIPMENT</b>		
Buildings and improvements	\$ —	\$ 36,640,265
Land	—	6,286,507
Tenant improvements	—	2,359,003
Total property and equipment, at cost	—	45,285,775
Less accumulated depreciation	—	6,629,128
Total property and equipment, net	—	38,656,647
<b>CASH AND CASH EQUIVALENTS</b>	553,775	482,182
<b>RESTRICTED CASH</b>	—	6,406,939
<b>OTHER ASSETS</b>		
Acquired intangible assets, net	—	419,806
Deferred rent receivable	—	458,288
Deferred financing costs, net of accumulated amortization of \$125,758 for 2012	—	116,075
Prepaid expenses and other assets	9,535	36,234
Tenant rent receivable	—	22,448
Due from related parties	5,400	39,100
Deferred leasing costs, net of accumulated amortization of \$317,750 for 2012	—	291,161
Total other assets	14,935	1,383,112
<b>TOTAL ASSETS</b>	<b>\$ 568,710</b>	<b>\$ 46,928,880</b>
<b><u>LIABILITIES AND PARTNERS' CAPITAL</u></b>		
<b>LIABILITIES</b>		
Note payable	\$ 392,388	\$ 37,000,000
Accrued interest payable	—	9,099,095
Accounts payable and accrued expenses	171,702	57,010
Unearned revenues	—	110,471
Tenant security deposits	—	108,049
Acquired intangible obligations, net	—	305
Total liabilities	\$ 564,090	\$ 46,374,930
<b>PARTNERS' CAPITAL</b>	<b>\$ 4,620</b>	<b>\$ 553,950</b>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$ 568,710</b>	<b>\$ 46,928,880</b>

See accompanying notes to the consolidated financial statements

**SEALY NEWMARKET GENERAL PARTNERSHIP**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

	2013 (UNAUDITED)	2012 (UNAUDITED)	2011
<b>OPERATING EXPENSES</b>			
General and administrative	5,993	9,288	396
Total operating expenses	5,993	9,288	396
<b>OPERATING LOSS</b>	(5,993)	(9,288)	(396)
<b>LOSS FROM DISCONTINUED OPERATIONS</b>			
Operating loss from discontinued operations	(18,876,067)	(4,544,988)	(4,402,747)
Gain on foreclosure of the note payable	18,332,730	—	—
Total loss from discontinued operations	(543,337)	(4,544,988)	(4,402,747)
<b>NET LOSS</b>	<u>\$ (549,330)</u>	<u>\$ (4,554,276)</u>	<u>\$(4,403,143)</u>

See accompanying notes to the consolidated financial statements

**SEALY NEWMARKET GENERAL PARTNERSHIP**  
**CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

	Sealy Newmarket Ventures, L.P.	WRT-Atlanta, L.L.C.	WRT TRS Management Corp	Total
<b>BALANCE, DECEMBER 31, 2010</b>	<u>\$ 3,043,637</u>	<u>\$ 6,467,732</u>	<u>\$ —</u>	<u>\$ 9,511,369</u>
Net Loss	(1,409,006)	(2,994,137)	—	(4,403,143)
<b>BALANCE, DECEMBER 31, 2011</b>	<u>1,634,631</u>	<u>3,473,595</u>	<u>—</u>	<u>5,108,226</u>
Net Loss (UNAUDITED)	(1,457,368)	(3,096,908)	—	(4,554,276)
<b>BALANCE, DECEMBER 31, 2012 (UNAUDITED)</b>	<u>177,263</u>	<u>376,687</u>	<u>—</u>	<u>553,950</u>
Transfer of Partnership Interest (UNAUDITED)	—	(16,699)	16,699	—
Net Loss (UNAUDITED)	(175,786)	(359,988)	(13,556)	(549,330)
<b>BALANCE, DECEMBER 31, 2013 (UNAUDITED)</b>	<u>\$ 1,477</u>	<u>\$ —</u>	<u>\$ 3,143</u>	<u>\$ 4,620</u>

See accompanying notes to the consolidated financial statements

**SEALY NEWMARKET GENERAL PARTNERSHIP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

	2013 (UNAUDITED)	2012 (UNAUDITED)	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (549,330)	\$ (4,554,276)	\$(4,403,143)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Gain on the foreclosure of the note payable	(18,332,730)	—	—
Impairment of property and equipment	14,562,200	—	—
Depreciation expense	1,179,099	1,357,440	1,494,515
Amortization of acquired intangibles	61,670	113,650	199,183
Amortization of deferred financing costs	29,022	29,021	29,021
Amortization of deferred leasing costs	194,160	111,605	96,348
(Increase) decrease in:			
Restricted cash	(366,875)	(1,048,695)	(1,216,698)
Deferred rent receivable	7,126	59,397	(121,393)
Prepaid expenses and other assets	2,281,313	992	382
Tenant rent receivable	(330,642)	(14,866)	12,168
Due from related parties	33,700	44,944	(70,744)
Deferred leasing costs paid	(236,852)	(9,277)	(180,819)
Increase (decrease) in:			
Accrued interest	1,375,257	4,293,454	4,305,474
Accounts payable and accrued expenses	192,913	(321,915)	77,644
Unearned revenues	201,523	(9,978)	(77,083)
Due to related parties	1,600	—	—
Tenant security deposits	11,901	5,000	(34,072)
Net cash provided by operating activities	<u>315,055</u>	<u>56,496</u>	<u>110,783</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(243,462)	(10,902)	(652,445)
Net cash used in investing activities	<u>(243,462)</u>	<u>(10,902)</u>	<u>(652,445)</u>
Change in cash and cash equivalents	71,593	45,594	(541,662)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	482,182	436,588	978,250
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 553,775</u>	<u>\$ 482,182</u>	<u>\$ 436,588</u>
Cash paid during the year for interest	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 18,845</u>

See accompanying notes to the consolidated financial statements

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**SEALY NEWMARKET GENERAL PARTNERSHIP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

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").

On May 30, 2013, WRT-Atlanta, L.L.C. transferred its ownership interest to WRT TRS Management Corp. which assumed all obligations of Winthrop under the governing documents of the partnership.

The Partnership acquired the Property on August 20, 2008 and began operations. On December 3, 2013, the property was foreclosed by the bank (see Note 7).

(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

See accompanying notes to the consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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DECEMBER 31, 2013 (UNAUDITED), 2012 (UNAUDITED), AND 2011**

1. ORGANIZATION (CONTINUED)

(vi) Sixth, any remainder allocated to the Partners in proportion to their respective Residual Percentage Interests.

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

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**SEALY NEWMARKET GENERAL PARTNERSHIP  
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1. ORGANIZATION (CONTINUED)

- (iii) Third, any balance to the Partners in proportion to their respective Residual Percentage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Partnership presents its consolidated financial statements on the going concern basis of accounting which contemplates realization of assets and satisfaction of liabilities in the normal course of business (see Note 6).

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, 2013, 2012 and 2011 was \$1,179,099, \$1,357,440, and \$1,494,515, respectively.

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.

See accompanying notes to the consolidated financial statements



**SEALY NEWMARKET GENERAL PARTNERSHIP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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**SEALY NEWMARKET GENERAL PARTNERSHIP**  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2013, 2012, and 2011 the Partnership incurred \$2,410, \$10,902, and \$18,389 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.

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, 2010. 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, 2013, 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

See accompanying notes to the consolidated financial statements

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**SEALY NEWMARKET GENERAL PARTNERSHIP**  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The company recorded an impairment of \$14,562,200 during 2013 (see Note 7).

3. 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, 2013, 2012 and 2011 were \$86,612, \$97,354, and \$104,399, 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, 2013, 2012 and 2011 were \$32,701, \$9,276, and \$34,570, 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, 2013, 2012, and 2011, the Partnership paid \$0, \$0, and \$22,500, 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.

4. 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 were due. From December 2006 until November 2011, monthly

See accompanying notes to the consolidated financial statements

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**SEALY NEWMARKET GENERAL PARTNERSHIP**  
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4. NOTE PAYABLE (CONTINUED)

interest only payments were due. From December 2011 until the maturity date, monthly principal and interest payments of \$224,696 were due. The Note was 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 was foreclosed on December 3, 2013 (see Note 7).

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 was 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 were transferred to the bank upon foreclosure.

Since the Note was in default, the Note was 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. Late fees were charged equal to 5.00% of the payment amount due.

5. 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.

6. GOING CONCERN

The Partnership has a history of recurring losses and negative cash flows from operating activities. During the year ended December 31, 2013, the sole operating asset of the Partnership was foreclosed (see Note 7). The Partnership is currently evaluating its options regarding future operations and funding sources. No assurance can be given that the Partnership will continue in its current form and structure or whether additional debt and/or equity can be raised and if available it will be on terms acceptable to the Partnership. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

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.

See accompanying notes to the consolidated financial statements

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**SEALY NEWMARKET GENERAL PARTNERSHIP  
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7. DISCONTINUED OPERATIONS

The historical operating results and gains (losses) from the disposition of certain assets, including operating properties sold, are required to be reflected in a separate section ("discontinued operations") in the consolidated statements of operations for all periods presented. As a result, the revenues and expenses of Sealy Newmarket, L.P. are included in loss from discontinued operations in the accompanying consolidated statements of operations for all periods presented.

On December 3, 2013, the property was foreclosed by the bank. Thus, the partnership recorded a gain on the foreclosure of the note payable of \$18,332,730 and a loss on the impairment of property and equipment of \$14,562,200. The gain on the foreclosure of the note payable was based on the fair value of the property and equipment of \$24,675,000, which was based on the sales price of the property sold by the bank, less the note payable of \$37,000,000, accrued interest payable of \$10,474,352, offset by restricted cash of \$4,466,622 transferred to the bank. The loss on the foreclosure of the property and equipment was based on the fair value of the property and equipment of \$24,675,000, less The net book value of the property and equipment of \$37,766,993, net book value of intangible assets of \$1,216,567, and net unearned revenue and uncollected tenant receivables of \$253,640.

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**SEALY NEWMARKET GENERAL PARTNERSHIP**  
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7. DISCONTINUED OPERATIONS (CONTINUED)

The following table shows the revenues and expenses of the above-described discontinued operations.

	2013 (UNAUDITED)	2012 (UNAUDITED)	2011
<b>REVENUES</b>			
Minimum rent	\$ 2,200,323	\$ 2,305,484	\$ 2,628,897
Tenant Reimbursements	295,475	302,387	379,433
Total revenues	<u>\$ 2,495,798</u>	<u>\$ 2,607,871</u>	<u>\$ 3,008,330</u>
<b>OPERATING EXPENSES</b>			
Impairment of property and equipment	14,562,200		
Depreciation and amortization	1,318,168	1,502,975	1,648,561
Repairs and maintenance	529,328	549,622	644,250
Property taxes	307,529	323,182	336,181
General and administrative	538,413	289,371	244,540
Management fees	86,612	97,354	104,399
Bad Debt	—	—	22,648
Insurance	74,398	74,157	75,722
Total operating expenses	<u>17,416,648</u>	<u>2,836,661</u>	<u>3,076,301</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(14,920,850)</u>	<u>(228,790)</u>	<u>(67,971)</u>
<b>OTHER INCOME (EXPENSE)</b>			
Gain on the foreclosure of note payable	18,332,730		
Other income	14,372	6,278	18,563
Interest expense	<u>(3,969,589)</u>	<u>(4,322,476)</u>	<u>(4,353,339)</u>
Total other expense	<u>14,377,513</u>	<u>(4,316,198)</u>	<u>(4,334,776)</u>
<b>NET LOSS</b>	<u>\$ (543,337)</u>	<u>\$ (4,544,988)</u>	<u>\$ (4,402,747)</u>

See accompanying notes to the consolidated financial statements