

PMC COMMERCIAL TRUST /TX  
Form S-4  
August 30, 2013  
Table of Contents

As filed with the Securities and Exchange Commission on August 30, 2013

Registration No. 333-

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

**FORM S-4**  
**REGISTRATION STATEMENT**  
*UNDER*  
*THE SECURITIES ACT OF 1933*

**PMC Commercial Trust**

(Exact name of registrant as specified in its charter)

Texas  
(State or other jurisdiction of

6798  
(Primary Standard Industrial

75-6446078  
(I.R.S. Employer

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

incorporation or organization)

Classification Code Number)

Identification Number)

17950 Preston Road, Suite 600, Dallas, Texas 75252

(972) 349-3200

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Jan F. Salit**

**Chief Executive Officer and President**

**PMC Commercial Trust**

**17950 Preston Road, Suite 600**

**Dallas, Texas 75252**

**(972) 349-3200**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*With copies to:*

**X. Lane Folsom**

**Gregory R.A. Dahlgren**

**John B. McKnight**

**Neal Aizenstein**

**Locke Lord LLP**

**DLA Piper LLP (US)**

**2200 Ross Avenue, Suite 2200**

**203 North LaSalle Street, Suite 1900**

**Dallas, Texas 75201-6776**

**Chicago, IL 60601-1293**

**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this Registration Statement is declared effective and the satisfaction or waiver of all other conditions to the closing of the merger and other transactions described herein.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, please check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

**Table of Contents**

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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.

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

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price per Unit</b>	<b>Proposed Maximum Aggregate Offering Price(2)</b>	<b>Amount of Registration Fee(3)</b>
Common Shares of Beneficial Interest, par value \$.01 per share	22,000,003(1)	N/A	\$66,183,113	\$9,028
Class A Convertible Cumulative Preferred Shares of Beneficial Interest, par value \$.01 per share	65,028,571	N/A	\$1,369,367,888	\$186,782
Common Shares of Beneficial Interest, par value \$.01 per share, issuable upon conversion of the Class A Convertible Cumulative Preferred Shares of Beneficial Interest	455,199,997(1)	N/A	(4)	(4)

- (1) Represents the number of Registrant's Common Shares of Beneficial Interest to be issued in connection with the merger described herein and the number of Registrant's Common Shares of Beneficial Interest issuable upon conversion of the Registrant's Class A Convertible Cumulative Preferred Shares of Beneficial Interest to be issued in connection with the merger described herein.
- (2) Estimated solely for purposes of calculating the registration fee required by Section 6(b) of the Securities Act, and calculated pursuant to Rule 457(f)(1) under the Securities Act. The proposed maximum aggregate offering price of the Registrant's Common Shares of Beneficial Interest was calculated based upon the book value of securities received by registrant from CIM Urban Partners, L.P. and CIM Urban Partners GP, LLC as of the latest practicable date.
- (3) Determined in accordance with Section 6(b) of the Securities Act at a rate equal to \$136.40 per \$1,000,000 of the proposed maximum aggregate offering price.
- (4) Pursuant to Rule 457(i), no separate registration fee is required for the Common Shares of Beneficial Interest underlying the Class A Convertible Cumulative Preferred Shares of Beneficial Interest because the Common Shares of Beneficial Interest are being registered on the same registration statement as the Class A Convertible Cumulative Preferred Shares of Beneficial Interest.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

**The information in this proxy statement/prospectus is not complete and may be changed. PMC Commercial Trust may not sell the securities offered by this proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities nor should it be considered a solicitation of an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED AUGUST 30, 2013**

**PROXY STATEMENT/PROSPECTUS**

**PMC COMMERCIAL TRUST**

**17950 PRESTON ROAD, SUITE 600**

**DALLAS, TEXAS 75252**

Dear PMC Commercial Trust Shareholder:

You are cordially invited to attend a special meeting of the shareholders of PMC Commercial Trust, a Texas real estate investment trust ( PMC Commercial ), at 9:00 a.m., Central Daylight Time, on [ ], 2013 at [ ].

At the special meeting, PMC Commercial shareholders will be asked to consider and vote upon a proposal to approve the issuance of common shares and preferred shares of PMC Commercial pursuant to the terms of the agreement and plan of merger dated as of July 8, 2013, by and among PMC Commercial, CIM Urban REIT, LLC ( CIM REIT ), and their respective merger subsidiaries, as it may be amended from time to time, which we refer to as the Merger Agreement and which is attached as Annex A to this proxy statement/prospectus. Pursuant to the Merger Agreement: (a) a merger subsidiary of CIM REIT will merge with and into a merger subsidiary of PMC Commercial, at which time PMC Commercial will become the parent company of CIM Urban Partners L.P. ( CIM Urban ) and its subsidiaries; and (b) PMC Commercial will issue to CIM REIT and CIM Urban Partners GP, LLC, the current general partner of CIM Urban (together, the CIM Parties ), in the aggregate, 22,000,003 common shares of PMC Commercial (the PMC Commercial Common Shares ) and 65,028,571 Class A convertible cumulative preferred shares of PMC Commercial (the PMC Commercial Preferred Shares ). Each PMC Commercial Preferred Share will be convertible into seven PMC Commercial Common Shares.

Under the terms of the Merger Agreement, the board of trust managers of PMC Commercial shall, on the last business day prior to consummation of the merger and the related transactions provided for in the Merger Agreement and the annexes, agreements and other documents referenced therein (the Merger ), declare a special dividend payable to each shareholder of record on that day of \$5.50 per PMC Commercial Common Share (plus that portion of PMC Commercial s regular quarterly dividend accrued through that day), which special dividend shall be payable on or prior to the tenth business day after consummation of the Merger. All of the PMC Commercial Common Shares outstanding immediately prior to the Merger will remain outstanding following the Merger. Assuming conversion of the PMC Commercial Preferred Shares, the CIM Parties will receive approximately 97.8% of the PMC Commercial Common Shares issued and outstanding immediately after consummation of the Merger. PMC Commercial expects that, following the Merger, the PMC Commercial Common Shares and the PMC Commercial Preferred Shares will be listed on a national securities exchange to be determined prior to the effective date of the Merger.

PMC Commercial is providing this proxy statement/prospectus and accompanying proxy card to its shareholders in connection with the solicitation of proxies to be voted at the special meeting and at any adjournments or postponements of the special meeting. This proxy statement/prospectus also constitutes a prospectus of PMC Commercial. Whether or not you plan to attend the special meeting, we urge you to read this proxy statement/prospectus (and any documents incorporated into this proxy statement/prospectus by reference) carefully. Please pay particular attention to the section titled RISK FACTORS beginning on page 37.

**PMC Commercial s board of trust managers has unanimously (i) determined that the Merger Agreement and the Merger, including the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares as provided in the Merger Agreement, are advisable, fair to and in the best interests of PMC Commercial and its shareholders, and (ii) approved the Merger Agreement and the annexes attached thereto, as well as the Merger and the issuance of the PMC Commercial Common Shares and the PMC Commercial Preferred Shares to the CIM Parties, as provided in the Merger Agreement. PMC Commercial s board of trust managers unanimously recommends that PMC Commercial shareholders vote FOR the proposal to approve the issuance of PMC Commercial Common Shares**

**and PMC Commercial Preferred Shares as provided in the Merger Agreement (the Share Issuance Proposal ). CIM REIT s director has also approved the Merger Agreement and the Merger.**

**Table of Contents**

The Merger cannot be completed unless the Share Issuance Proposal is approved by the affirmative vote of the holders of at least a majority of the PMC Commercial Common Shares that are present in person or by proxy at the special meeting.

**Your vote is very important. If you are a registered shareholder, please vote your shares as soon as possible using one of the following methods to ensure that your vote is counted, regardless of whether you expect to attend the special meeting in person: (1) call the toll-free number specified on the enclosed proxy card and follow the instructions when prompted, (2) access the internet website specified on the enclosed proxy card and follow the instructions provided to you, or (3) complete, sign, date and return the enclosed proxy card in the postage-paid envelope provided. If you hold your shares in street name through a bank, broker or other nominee, you will need to follow the instructions provided to you by your bank, broker or other nominee to ensure that your shares are represented and voted at the special meeting. If you are a shareholder of record and you attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person. Proof of share ownership and a form of photo identification will be required for admission to the special meeting. For further information on admission, please refer to the question entitled Who can attend the special meeting? on page 6 of the proxy statement/prospectus.**

On behalf of our board of trust managers, I thank you for your support and look forward to the successful completion of the Merger.

Sincerely,

[ ], 2013

Jan F. Salit

Chief Executive Officer and President

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this proxy statement/prospectus or determined if this proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

This proxy statement/prospectus is dated [ ], 2013, and is first being mailed to the shareholders of PMC Commercial on or about [ ], 2013.

**Table of Contents**

**PMC COMMERCIAL TRUST**  
**17950 PRESTON ROAD, SUITE 600**  
**DALLAS, TEXAS 75252**  
**NOTICE OF SPECIAL MEETING**  
**OF SHAREHOLDERS OF PMC COMMERCIAL TRUST**  
**TO BE HELD ON [                      ], 2013**

To the Shareholders of PMC Commercial Trust:

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of PMC Commercial Trust, a Texas real estate investment trust ( *PMC Commercial* ), will be held at 9:00 a.m., Central Daylight Time, on [                      ], 2013, at [                      ]. You are cordially invited to attend the special meeting of shareholders for the following purposes:

- (1) *The Share Issuance Proposal* to consider and vote upon a proposal to approve the issuance of the common shares and preferred shares of PMC Commercial pursuant to the terms of that certain agreement and plan of merger, dated as of [                      ], 2013, as it may be amended from time to time (the *Merger Agreement* ), by and among PMC Commercial, Southfork Merger Sub, LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of PMC Commercial ( *PMC Merger Sub* ), CIM REIT, and CIM Merger Sub, LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of CIM REIT ( *CIM Merger Sub* ) (the *Share Issuance Proposal* );
- (2) *The Merger-Related Compensation Proposal* to consider and vote upon, through a non-binding advisory vote, certain compensation arrangements for PMC Commercial's named executive officers in connection with the merger and other transactions contemplated by the Merger Agreement (the *Merger-Related Compensation Proposal* );
- (3) *The Adjournment Proposal* to consider and vote upon a proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal; and
- (4) to consider and transact such other procedural matters as may properly come before the special meeting of shareholders or any adjournment or postponement thereof.

The Share Issuance Proposal is not conditioned on the approval of the Merger-Related Compensation Proposal or the adjournment proposal, as approval of the Share Issuance Proposal is the only PMC Commercial shareholder approval required for consummation of the merger described in the Merger Agreement.

Only shareholders of record of PMC Commercial at the close of business on [                      ], 2013 are entitled to notice of the special meeting of shareholders and to vote and have their votes counted at the special meeting of shareholders and any adjournments or postponements of the special meeting of shareholders. A complete list of PMC Commercial shareholders of record entitled to vote at the special meeting of shareholders will be available for ten days before the special meeting of shareholders at the principal executive offices of PMC Commercial for inspection by shareholders during usual business hours for any purpose germane to the special meeting of shareholders.

The transactions contemplated by the Merger Agreement will be consummated only if the holders of at least a majority of the shares that are present in person or by proxy at the special meeting vote in favor of the Share Issuance Proposal.

Thank you for your participation. We look forward to your continued support.

[                      ], 2013

By Order of the Board of Trust Managers

Jan F. Salit





**Table of Contents**

**ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates important business and financial information about PMC Commercial from other documents that are not included in or delivered with this proxy statement/prospectus. This information is available for you to review at the public reference room of the Securities and Exchange Commission, or SEC, located at 100 F Street, N.E., Washington, D.C. 20549, and through the SEC's website at [www.sec.gov](http://www.sec.gov). You can also obtain the documents incorporated by reference into this proxy statement/prospectus free of charge by requesting them in writing or by telephone at the following address and telephone number:

**PMC Commercial Trust**

17950 Preston Road, Suite 600

Dallas, Texas 75252

(972) 349-3235

Attention: Investor Relations

or

**[proxy solicitation firm]**

[ ]

[ ]

[( ) ]

**If you would like to request any documents, please do so by [ ], 2013 in order to receive them before the special meeting.**

**You also may obtain additional proxy cards and other information related to the proxy solicitation by contacting the appropriate contact listed above. You will not be charged for any of the documents that you request.**

For a more detailed description of the information incorporated by reference in this proxy statement/prospectus and how you may obtain it, see the section entitled "Where You Can Find More Information" beginning on page 204.

**ABOUT THIS DOCUMENT**

This document, which forms part of a Registration Statement on Form S-4 filed with the SEC by PMC Commercial, constitutes a prospectus of PMC Commercial under Section 5 of the Securities Act of 1933, as amended (the "Securities Act"), with respect to: (a) the PMC Commercial Common Shares and PMC Commercial Preferred Shares to be issued to the CIM Parties pursuant to the terms of the Merger Agreement; (b) the PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares to be issued to the CIM Parties pursuant to the terms of the Merger Agreement; and (c) the distribution by CIM REIT to approximately 100 employees of CIM Group and/or its affiliates and/or related parties of CIM REIT of an aggregate of approximately 10,000 of the PMC Commercial Preferred Shares to be issued to CIM REIT pursuant to the terms of the Merger Agreement. This document also constitutes a proxy statement of PMC Commercial under Section 14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

You should rely only on the information contained or incorporated by reference into this proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this proxy statement/prospectus. This proxy statement/prospectus is dated as of the date set forth on the cover hereof. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than that date. You should not assume that the information

**Table of Contents**

incorporated by reference into this proxy statement/prospectus is accurate as of any date other than the date of such incorporated document. Neither the mailing of this proxy statement/prospectus to PMC Commercial shareholders nor the issuance by PMC Commercial of its securities in connection with the Merger will create any implication to the contrary.

Information contained or incorporated by reference in this proxy statement/prospectus regarding PMC Commercial has been provided by PMC Commercial, and information contained in this proxy statement/prospectus regarding the CIM Parties has been provided by CIM REIT.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<u>QUESTIONS AND ANSWERS</u>	1
<u>SUMMARY TERM SHEET</u>	11
<u>Parties to the Merger</u>	11
<u>The Special Meeting</u>	12
<u>The Merger</u>	13
<u>Post-Merger Structure</u>	14
<u>Effective Time of the Merger</u>	15
<u>Conditions to Complete the Merger</u>	15
<u>Recommendation of PMC Commercial's Board of Trust Managers</u>	16
<u>Opinion of PMC Commercial's Financial Advisor</u>	16
<u>Interests of PMC Commercial Trust Managers and Executive Officers in the Merger</u>	17
<u>No Dissenters' Rights</u>	17
<u>Material U.S. Federal Income Tax Consequences</u>	17
<u>Acquisition Proposals; Go-Shop Period</u>	17
<u>No-Shop Period</u>	18
<u>Termination of the Merger Agreement</u>	18
<u>Termination Fees and Expenses</u>	19
<u>Summary of Key Risk Factors</u>	19
<u>Share Ownership of Trust Managers and Executive Officers of PMC Commercial</u>	20
<u>SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF PMC COMMERCIAL</u>	21
<u>SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF CIM URBAN</u>	23
<u>UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS</u>	24
<u>COMPARATIVE SHARE INFORMATION</u>	33
<u>Consolidated Per Share Information</u>	33
<u>Comparative PMC Commercial and CIM Urban Market Price and Dividend Information</u>	34
<u>RATIO OF COMBINED FIXED CHARGES AND PREFERENCE DIVIDENDS TO EARNINGS</u>	36
<u>RISK FACTORS</u>	37
<u>Risks Related to the Merger</u>	37
<u>Risks Related to CIM Urban's Business and Properties</u>	41
<u>Risks Related to PMC Commercial after the Merger</u>	52
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	59
<u>THE PARTIES TO THE MERGER</u>	61
<u>THE SPECIAL MEETING</u>	62
<u>Date, Time and Place</u>	62
<u>Purpose</u>	62
<u>Record Date; Voting Rights</u>	62
<u>Quorum</u>	62
<u>Required Vote</u>	62
<u>Voting; Proxies</u>	62
<u>Revocation</u>	63
<u>Solicitation of Proxies; Costs</u>	63
<u>THE MERGER</u>	64
<u>Background of the Merger</u>	64
<u>Reasons of CIM REIT for the Merger</u>	70
<u>Reasons of PMC Commercial's Board of Trust Managers for the Merger</u>	70
<u>Recommendation of PMC Commercial's Board of Trust Managers</u>	73
<u>Opinion of PMC Commercial's Financial Advisor</u>	73
<u>Interests of PMC Commercial Trust Managers and Executive Officers in the Merger</u>	79
<u>Advisory Vote on Merger-Related Compensation Proposal</u>	81

**Table of Contents****TABLE OF CONTENTS**

(continued)

	<b>Page</b>
<u>Security Ownership of PMC Commercial s Board of Trust Managers and Executive Officers and Current Beneficial Owners</u>	83
<u>Listing of PMC Commercial Shares</u>	84
<u>Anticipated Distribution of PMC Commercial Shares Received in the Merger</u>	84
<u>Post-Merger Shareholders Meeting</u>	85
<u>Regulatory Approvals</u>	85
<u>Accounting Treatment</u>	85
<u>Voting Rights</u>	85
<b><u>THE MERGER AGREEMENT</u></b>	86
<u>The Merger</u>	86
<u>Effective Time of the Merger</u>	86
<u>Representations and Warranties</u>	86
<u>Conduct of CIM REIT s Business Pending the Merger</u>	89
<u>Conduct of PMC Commercial s Business Pending the Merger</u>	90
<u>Preparation of the Registration Statement and the Proxy Statement</u>	91
<u>Shareholders Meeting</u>	91
<u>Access to Information</u>	91
<u>Agreement to Take Certain Action and Use Commercially Reasonable Efforts</u>	91
<u>Certain Other Covenants</u>	92
<u>Acquisition Proposals</u>	94
<u>Conditions to Complete the Merger</u>	95
<u>Termination of the Merger Agreement</u>	98
<u>Termination Fees and Expenses</u>	99
<u>Amendment and Waiver</u>	99
<b><u>THE TERMS OF THE PMC COMMERCIAL PREFERRED SHARES</u></b>	99
<u>Ranking</u>	100
<u>Distributions</u>	100
<u>Liquidation Rights</u>	100
<u>Redemption</u>	101
<u>Conversion</u>	101
<u>Voting Rights</u>	102
<u>Transfer</u>	103
<u>Amendment</u>	103
<b><u>THE REGISTRATION RIGHTS AND LOCKUP AGREEMENT: MASTER SERVICES AGREEMENT</u></b>	103
<u>The Registration Rights and Lockup Agreement</u>	103
<u>Master Services Agreement</u>	104
<b><u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u></b>	108
<u>United States Federal Income Tax Consequences of the Merger</u>	109
<u>Tax Consequences to PMC Commercial Shareholders of the Special Dividend</u>	111
<u>United States Federal Income Taxation of PMC Commercial Following the Merger</u>	111
<u>Taxation of Shareholders</u>	125
<u>Backup Withholding and Information Reporting</u>	131
<u>Other Tax Considerations</u>	131
<b><u>BUSINESS OF CIM URBAN</u></b>	132
<u>Overview and History of CIM Group</u>	134
<u>Overview and History of CIM REIT</u>	135
<u>CIM Urban Business Objectives and Growth Strategies</u>	136

**Table of Contents**

**TABLE OF CONTENTS**

(continued)

	<b>Page</b>
<u>Competitive Advantages</u>	136
<u>Investment Strategy</u>	137
<u>Policies with Respect to Certain Activities</u>	138
<u>Markets Overview</u>	139
<u>Properties</u>	143
<u>CIM Urban Partnership Agreement</u>	158
<u>Investment Management Agreement</u>	159
<u>Financing Strategy</u>	160
<u>Risk Management</u>	160
<u>Regulatory Matters</u>	161
<u>Competition</u>	161
<u>Management</u>	161
<u>Legal Proceedings</u>	161
<u>CIM URBAN S MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	162
<u>Executive Summary</u>	162
<u>Results of Operations</u>	164
<u>Liquidity and Capital Resources</u>	171
<u>Critical Accounting Policies</u>	173
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	176
<u>MANAGEMENT OF PMC COMMERCIAL AFTER THE MERGER</u>	178
<u>Management and Board of Trust Managers</u>	178
<u>Independence of the Board of Trust Managers</u>	179
<u>Committees of the Board of Trust Managers</u>	180
<u>Code of Business Conduct and Ethics</u>	180
<u>Trust Manager Compensation</u>	181
<u>Executive Compensation</u>	181
<u>STRATEGY OF PMC COMMERCIAL AFTER THE MERGER</u>	181
<u>Business Strategy</u>	181
<u>The Reincorporation</u>	182
<u>Certain Material Provisions of Maryland Law and the Maryland Charter and Maryland Bylaws</u>	184
<u>Comparison of Rights of Shareholders of PMC Commercial (TX) and Stockholders of PMC Commercial (MD)</u>	191
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	200
<u>Code of Ethics and Related Person Policy</u>	200
<u>Interests of Trust Managers in Fees Paid to CIM Group</u>	200
<u>Master Services Agreement</u>	201
<u>Registration Rights and Lockup Agreement</u>	203
<u>PLAN OF DISTRIBUTION</u>	203
<u>NO DISSENTERS RIGHTS</u>	203
<u>LEGAL MATTERS</u>	204
<u>EXPERTS</u>	204
<u>DELIVERY OF DOCUMENTS TO SHAREHOLDERS</u>	204
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	204
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1

**Table of Contents**

**ANNEXES**

Annex A	Merger Agreement
Annex B	Form of Statement of Designation of the Class A Preferred Shares of Beneficial Interest of PMC Commercial
Annex C	Form of Registration Rights and Lockup Agreement
Annex D	Form of Master Services Agreement
Annex E	Opinion of Sandler O'Neill + Partners, L.P.
Annex F	Proposed Articles of Incorporation of PMC Commercial (Maryland)
Annex G	Proposed By-Laws of PMC Commercial (Maryland)

**Table of Contents**

**QUESTIONS AND ANSWERS**

The following questions and answers are intended to address briefly some commonly asked questions regarding the Merger Agreement, the Merger, the Share Issuance Proposal and the special meeting. These questions and answers do not address all questions that may be important to you as a shareholder. Please refer to the SUMMARY TERM SHEET beginning on page 11 and the more detailed information contained elsewhere in this proxy statement/prospectus and the annexes to this proxy statement/prospectus, which you should read carefully.

Unless otherwise indicated or the context requires otherwise:

all references to the Advisor refer to CIM Urban REIT Management L.P., a California limited partnership that provides day-to-day management of CIM Urban's operations;

all references to the Board of Trust Managers refer to the board of trust managers of PMC Commercial, and all references to a Trust Manager refer to a member thereof;

all references to CIM Group refer to CIM Group LLC, a Delaware limited liability company, and its affiliates;

all references to CIM Merger Sub refer to CIM Merger Sub, LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of CIM REIT;

all references to CIM Parties refer to CIM REIT and CIM Urban Partners GP, LLC;

all references to CIM REIT refer to CIM Urban REIT, LLC, a Delaware limited liability company;

all references to CIM Urban refer to CIM Urban Partners L.P., a Delaware limited partnership and subsidiary of CIM REIT;

all references to Manager refer to CIM Service Provider, LLC, a Delaware limited liability company, together with any of its affiliates appointed to act as manager pursuant to the Master Services Agreement;

all references to Master Services Agreement refer to the Master Services Agreement to be entered into by the Manager and PMC Commercial and its subsidiaries effective upon consummation of the Merger;

all references to the Merger refer to the merger of CIM Merger Sub with and into PMC Merger Sub, as contemplated by the Merger Agreement, together with the related transactions provided for in the Merger Agreement and the annexes, agreements and other documents referenced therein;

all references to the Merger Agreement refer to the Agreement and Plan of Merger, dated as of July 8, 2013, as it may be amended from time to time, among PMC Commercial, PMC Merger Sub, CIM REIT and CIM Merger Sub, a copy of which is attached as Annex A to this proxy statement/prospectus;



## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

all references to the Merger-Related Compensation Proposal refer to the proposed compensation arrangements for PMC Commercial's named executive officers in connection with the Merger;

all references to PMC Commercial refer to PMC Commercial Trust;

all references to PMC Commercial Common Shares refer to the common shares of beneficial interest, par value \$0.01 per share, of PMC Commercial;

all references to PMC Commercial Preferred Shares refer to the Class A convertible cumulative preferred shares of beneficial interest, par value \$0.01 per share, of PMC Commercial;

all references to PMC Merger Sub refer to Southfork Merger Sub, LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of PMC Commercial;

all references to the Share Issuance Proposal refer to the proposed issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares pursuant to the Merger Agreement; and

**Table of Contents**

all references to the Special Dividend refer to the dividend to be declared by the Board of Trust Managers to the holders of PMC Commercial Common Shares on the last business day prior to consummation of the Merger, providing for the payment of \$5.50 per PMC Commercial Common Share plus that portion of PMC Commercial's regular quarterly dividend accrued through that day, which in accordance with the terms of the Merger Agreement shall be payable on or prior to the tenth business day after consummation of the Merger.

**Q: What is the proposed transaction?**

**A:** The proposed Merger, as described in the Merger Agreement. If the Share Issuance Proposal is approved by PMC Commercial shareholders and the other closing conditions specified in the Merger Agreement are satisfied or waived, the Merger will be consummated.

**Q: What will happen in the Merger?**

**A:** As a result of the Merger:

PMC Commercial will become the parent of CIM Urban and its subsidiaries; and

PMC Commercial will issue to the CIM Parties, in the aggregate, 22,000,003 PMC Commercial Common Shares and 65,028,571 PMC Commercial Preferred Shares.

**Q: What will PMC Commercial shareholders receive as a result of the Merger?**

**A:** Pursuant to the declaration of the Board of Trust Managers, PMC Commercial shareholders of record on the last business day prior to consummation of the Merger will receive payment of the Special Dividend. In addition, each existing shareholder of PMC Commercial at the time of the Merger will continue to own the PMC Commercial Common Shares that such shareholder owned before the Merger. Assuming conversion of the PMC Commercial Preferred Shares issued in connection with the Merger, the shareholders of PMC Commercial prior to the Merger, on an aggregate basis, will own approximately 2.2% of the issued and outstanding PMC Commercial Common Shares immediately after the Merger.

**Q: What are some of the key terms of the PMC Commercial Preferred Shares to be issued to the CIM Parties in connection with the Merger?**

**A:** The holder of each PMC Commercial Preferred Share is entitled to a cumulative dividend at the rate of 2.0% of \$35.00 per year, which is subject to increase to 3.5% under certain conditions, and is convertible into seven PMC Commercial Common Shares.

**Q: What will be the equity capitalization of PMC Commercial immediately after the Merger?**

**A:** Upon consummation of the Merger, existing shareholders of PMC Commercial will continue to own approximately 10.6 million PMC Commercial Common Shares and the CIM Parties will own approximately 22.0 million PMC Commercial Common Shares and approximately 65.0 million PMC Commercial Preferred Shares. Assuming conversion of the PMC Commercial Preferred Shares, the CIM Parties will beneficially hold approximately 97.8% of the PMC Commercial Common Shares issued and outstanding immediately

following the consummation of the Merger.

**Q: What are some of the key actions required to consummate the Merger?**

**A:** The following are some of the key actions that must be taken to consummate the Merger:

the approval of the Share Issuance Proposal by PMC Commercial's shareholders;

any waiting period applicable to the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") shall have been terminated or expired;

a national securities exchange mutually acceptable to CIM REIT and PMC Commercial shall have approved for listing the PMC Commercial Common Shares and the PMC Commercial Preferred Shares, including the PMC Commercial Common Shares and the PMC Commercial Preferred Shares to

**Table of Contents**

be issued in the Merger and all PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares;

the Small Business Administration (the SBA ) shall have approved those aspects of the Merger subject to its jurisdiction, and such approval shall not contain any terms or conditions that are unacceptable to CIM REIT or PMC Commercial or inconsistent with the Merger Agreement;

the Registration Statement on Form S-4 to be filed with the SEC by PMC Commercial, of which this proxy statement/prospectus constitutes a part, shall have been declared effective, and no stop order or proceeding suspending the effectiveness of the Form S-4 has been initiated or threatened by the SEC;

the filing of the certificate of merger with the Secretary of State of the State of Delaware (or at such later time as PMC Commercial and CIM REIT shall agree and specify in the certificate of merger to be filed with the Secretary of State of the State of Delaware) so that CIM Merger Sub will be merged with and into PMC Merger Sub; and

the issuance by PMC Commercial to the CIM Parties of 22,000,003 PMC Commercial Common Shares and 65,028,571 PMC Commercial Preferred Shares.

**Q: What dividend rate does PMC Commercial expect to pay on PMC Commercial Common Shares after the Merger?**

A: Subject to declaration by the then Board of Trust Managers, PMC Commercial expects to initially pay an annual dividend of \$0.175 per PMC Commercial Common Share following the Merger, to be paid on a quarterly basis. For historical dividend information, please see COMPARATIVE SHARE INFORMATION Comparative PMC Commercial and CIM Urban Market Price and Dividend Information beginning on page 34 of this proxy statement/prospectus. Although property real estate investment trusts ( REITs ) usually pay shareholders a lower yield than mortgage REITs, PMC Commercial believes over time property REITs experience higher price appreciation on average than do mortgage REITs.

**Q: What will be the composition of the Board of Trust Managers following the Merger?**

A: The post-Merger Board of Trust Managers will consist of the following Trust Managers: Richard Ressler, Avraham Shemesh, Shaul Kuba and Kelly Eppich, plus three independent Trust Managers to be appointed prior to the effective time of the Merger.

**Q: Why are PMC Commercial and CIM REIT proposing the Merger?**

A: The decision of the Board of Trust Managers to approve entry into the Merger Agreement and the annexes attached thereto was the result of careful consideration by the Board of Trust Managers of numerous factors, including the following material factors:

PMC Commercial is not a diversified company, as it is dependent on its SBA 7(a) mortgage loan product that is made to borrowers primarily in the limited service hospitality industry. Following the Merger, PMC Commercial's business will be diversified by product type, industry, tenant and asset class.

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

It is expected that the Merger will provide PMC Commercial with the ability to obtain capital on more attractive terms than are currently available and the opportunity to participate in the enhanced future growth potential of the combined company, including any potential growth as a result of its increased size.

The Merger provides PMC Commercial with the ability to increase significantly its size in the short term rather than building over time in an effort to achieve a critical asset mass.

Although property REITs usually pay shareholders a lower yield than mortgage REITs, PMC Commercial believes over time property REITs experience higher price appreciation on average than do mortgage REITs.

## **Table of Contents**

PMC Commercial's Common Shares have historically traded at a discount to the book value per PMC Commercial Common Share. The Board of Trust Managers believes that the Merger (including payment of the Special Dividend) will be accretive to the value of PMC Commercial Common Shares and provide a premium to the then-current market price of PMC Commercial Common Shares.

The Board of Trust Managers believes that the Merger is more favorable to PMC Commercial shareholders than remaining independent, liquidating, or the other strategic alternatives available to PMC Commercial, which belief was formed based on a number of factors, including its evaluation of PMC Commercial's current operations and projections and the potential strategic alternatives available to PMC Commercial and consideration of the bids submitted during the third party solicitation process with respect to a possible business combination transaction in 2011 and 2012, as well as discussions with various market participants in early 2013 and during the Go-Shop Period in 2013 (see the section titled "THE MERGER Background of the Merger" beginning on page 64).

The Board of Trust Managers believes that PMC Commercial's shareholders will likely benefit, over time, from the enhanced liquidity that should result from a much greater number of PMC Commercial Common Shares being held by a broader shareholder base.

PMC Commercial is a small public company that must bear the substantial fixed costs associated with being a public company, and the Merger will result in a substantially larger combined company with a larger base of business over which these costs can be spread, thus reducing these costs as a percentage of revenue.

The Board of Trust Managers believes that CIM Group's understanding of the business, operational and financial aspects of operating a real estate business will accrue to the benefit of PMC Commercial and its shareholders.

The Merger will provide PMC Commercial with the opportunity to invest in a portfolio of high quality performing real property assets that is managed by an experienced senior management team.

The Board of Trust Managers expects that PMC Commercial's lending operations and management team will continue and it will have enhanced opportunities for liquidity, growth and an expanded business model and platform.

The Merger Agreement provisions permit PMC Commercial to enter into or participate in discussions or negotiations with a third party that makes an unsolicited written acquisition proposal to engage in a business combination or similar transaction, if the Board of Trust Managers determines in good faith, after consultation with outside legal counsel, that the failure to do so would reasonably be expected to be inconsistent with its fiduciary duties and that the third party proposal, after consultation with outside legal counsel and its financial advisor, constitutes a superior proposal or could reasonably be expected to result in a superior proposal (see the section titled "THE MERGER AGREEMENT Acquisition Proposals Unsolicited Offers" beginning on page 95).

The opinion of Sandler O'Neill + Partners, L.P., dated July 8, 2013, to the Board of Trust Managers, as to the fairness, from a financial point of view, of the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares pursuant to the terms of the Merger Agreement together with the payment of the Special Dividend (the "Merger Consideration"), to PMC Commercial and its shareholders, which opinion was based on and subject to the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken, as more fully described below in the section "THE MERGER Opinion of PMC Commercial's Financial Advisor" beginning on page 73.

See the section titled "THE MERGER Reasons of PMC Commercial's Board of Trust Managers for the Merger" beginning on page 70.

**Table of Contents**

CIM REIT's director approved the Merger Agreement and the Merger. CIM REIT is proposing the Merger:

to provide CIM Urban with a flexible capital structure with which to efficiently pursue its business strategy of owning and growing its portfolio of substantially stabilized assets in submarkets in which CIM Group's opportunistic funds have targeted investment;

to allow potential investors who were previously unable to invest in CIM REIT, due to an inability to meet the minimum capital commitment requirements, to own interests in CIM Urban assets;

to allow potential investors who were previously unable to invest in CIM REIT, due to a restriction a potential investor may have faced regarding making investments in non-public vehicles, to own interests in CIM Urban assets;

to allow existing investors in CIM REIT who wish to continue owning interests in CIM Urban assets to do so through a publicly-traded, perpetual life liquid entity; and

as an economically efficient path to liquidity, over time, for existing investors in CIM REIT through a public vehicle.

**Q: What will be the strategy of PMC Commercial and its subsidiaries, including CIM Urban, after the Merger?**

**A:** PMC Commercial and/or its subsidiaries plan to (i) invest primarily in substantially stabilized real estate and real estate-related assets in high density, high barrier-to-entry urban markets throughout North America, in a manner similar to the current investment strategy of CIM Urban and (ii) continue to originate loans to small businesses collateralized by first liens on the real estate of the related business, in accordance with the current investment strategy of PMC Commercial but with a focus on expanding PMC Commercial's existing business of originating loans through the Small Business Administration's 7(a) Guaranteed Loan Program. The Advisor will provide the day-to-day management of CIM Urban's operations. CIM Group will manage most aspects of PMC Commercial's real estate business after the completion of the Merger, and it is anticipated that PMC Commercial will be the principal investment vehicle through which CIM Group will place substantially stabilized real estate investments.

PMC Commercial expects to generate additional value by:

expanding the existing CIM Urban portfolio through the acquisition of substantially stabilized real estate and real estate-related assets at yields which are accretive relative to the targeted dividend;

increasing the leverage of the CIM Urban portfolio from its current 15.2% ratio<sup>1</sup> to a ratio more in line with the broad universe of REITs, which currently averages approximately 41%<sup>2</sup>, and to the extent additional borrowing is then available, subsequently investing the proceeds of approximately \$1.0 billion into additional investments; and

expanding, over time, into new real estate-related activities supported by CIM Group's broad real estate investment capabilities. These activities may include (i) originating and/or investing in a variety of loan products, including, but not limited to, mezzanine loans, commercial real estate loans and other types of loans, (ii) real estate development activities to create core property or otherwise, and/or (iii) forming an open-ended REIT to raise additional capital from institutional investors, which would involve a joint venture with CIM Urban. These new activities may be internally managed or externally managed by the Advisor or its affiliates.

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

<sup>1</sup> Leverage ratio reflects the total debt outstanding, inclusive of CIM Urban's unsecured revolving credit line of approximately \$367 million, as of June 30, 2013, divided by CIM Urban's determination of the fair value of its total assets of approximately \$2.4 billion, as of June 30, 2013.

<sup>2</sup> This average reflects the ratio of debt to gross asset value of each REIT covered by Morgan Stanley Equity Research; source: *Weekly REIT Insights: 2Q13 Earnings Preview*, August 19, 2013.



---

**Table of Contents**

**Q: What will happen in the post-Merger shareholder meeting contemplated by the Merger Agreement?**

**A:** If the Merger is consummated, PMC Commercial will hold another meeting of shareholders as soon as practicable thereafter to approve an increase in the number of authorized PMC Commercial Common Shares to one billion (thereby satisfying the condition for the automatic conversion of the PMC Commercial Preferred Shares issued in connection with the Merger into an aggregate of 455,199,997 PMC Commercial Common Shares). At this meeting, PMC Commercial shareholders may also be asked to approve (i) a reverse stock split of the outstanding PMC Commercial Common Shares, and/or (ii) the reincorporation of PMC Commercial from Texas to Maryland (the Reincorporation ) so that PMC Commercial 's corporate governance and the rights of shareholders will be governed by Maryland law and a proposed new Maryland charter (as attached hereto as Annex F, the Maryland Charter ) and proposed new Maryland bylaws (as attached hereto as Annex G, the Maryland Bylaws ) instead of Texas law and the Declaration of Trust of PMC Commercial and existing bylaws of PMC Commercial. The Reincorporation would be effected by a merger of PMC Commercial with and into a newly formed, wholly-owned Maryland corporate subsidiary. The CIM Parties have agreed to vote their 97.8% post-Merger beneficial ownership of PMC Commercial Common Shares in favor of each of the proposals presented to shareholders at this meeting; as a consequence, if the Merger is consummated, there is a very high probability that the proposals to be presented at this subsequent shareholders meeting will be approved.

**Q: What are the reasons for the potential Reincorporation?**

**A:** The Maryland Charter and Maryland Bylaws and being governed by Maryland law would bring PMC Commercial 's corporate governance more in line with that of other public REITs, as over 70% of which are currently organized under Maryland law. The Maryland Charter would also increase the number of authorized PMC Commercial Common Shares so that the condition for automatically converting the PMC Commercial Preferred Shares into PMC Commercial Common Shares would be satisfied.

For additional information about the Reincorporation, including a comparison of the rights of PMC Commercial shareholders and PMC Commercial 's corporate governance before and after the potential Reincorporation, please see STRATEGY OF PMC COMMERCIAL AFTER THE MERGER The Reincorporation on page 181.

**Q: When and where is the special meeting?**

**A:** The special meeting of shareholders of PMC Commercial will be held on [ ], 2013, at [ ], starting at 9:00 a.m. Central Daylight Time.

**Q: Who can attend the special meeting?**

**A:** Only persons who are holders of PMC Commercial Common Shares as of the record date for the special meeting or who are invited guests of PMC Commercial may attend and be admitted to the special meeting. All shareholders attending the special meeting will be required to show photo identification (a valid driver 's license, state identification or passport) prior to admission. If a shareholder 's shares are registered in the name of a bank, broker or other custodian, the shareholder must also bring a proxy or a letter from that bank, broker or other custodian or their most recent brokerage account statement that confirms that the shareholder was a beneficial owner of PMC Commercial Common Shares as of the record date. In addition, shareholders must present the admission ticket included in this proxy statement/prospectus in order to attend the special meeting.

**Q: What matters will be voted on at the special meeting?**

**A:** You will be asked to consider and vote on the following proposals:

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

to consider and vote to approve the Share Issuance Proposal;

to consider and vote to approve, through a non-binding advisory vote, the Merger-Related Compensation Proposal;

**Table of Contents**

to consider and vote on the adjournment of the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal; and

to consider and transact such other procedural matters as may properly come before the special meeting or any adjournments or postponements of the special meeting.

**Q: How does the PMC Commercial Board of Trust Managers recommend that I vote on the proposals?**

**A:** The Board of Trust Managers unanimously recommends that you vote:

FOR approval of the Share Issuance Proposal;

FOR approval of the Merger-Related Compensation Proposal; and

FOR adjournment of the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal.

**Q: What vote is required for PMC Commercial shareholders to approve the Share Issuance Proposal?**

**A:** Approval of the Share Issuance Proposal will require the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting. The Share Issuance Proposal is not conditioned on the approval of the Merger-Related Compensation Proposal or the adjournment proposal, as approval of the Share Issuance Proposal is the only PMC Commercial shareholder approval required for consummation of the Merger.

**Q: What vote is required for PMC Commercial shareholders to approve the Merger-Related Compensation Proposal?**

**A:** In accordance with Section 14A of the Securities Exchange Act of 1934 (as amended, the Exchange Act ), PMC Commercial is providing its shareholders with the opportunity to approve, through a non-binding advisory vote, certain compensation arrangements for PMC Commercial's named executive officers in connection with the Merger, as described in THE MERGER Advisory Vote on Merger-Related Compensation Proposal. Approval of the Merger-Related Compensation Proposal will require the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting.

**Q: What vote is required for PMC Commercial shareholders to approve the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal?**

**A:** Approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal will require the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting. Less than a quorum may adjourn the special meeting.

**Q: How are votes counted?**

**A:** For the proposal to approve the Share Issuance Proposal, you may vote **FOR**, **AGAINST** or **ABSTAIN** . Abstentions will count for the purpose of determining whether a quorum is present at the special meeting. If you abstain, it will have the same effect as a vote against the approval of the Share Issuance Proposal. In addition, if your shares are held in the name of a bank, broker or other custodian, your bank, broker or other custodian will not vote your shares in the absence of specific instructions from you on how to vote your shares. Inasmuch as no routine matters will be voted upon at the special meeting, no broker non-votes will be cast at the special meeting, and therefore broker non-votes will have no effect on the vote count for the Share Issuance Proposal.

For the proposal to approve the Merger-Related Compensation Proposal through a non-binding advisory vote, you may vote **FOR**, **AGAINST** or **ABSTAIN** . If you abstain, it will have the same effect as a vote against the approval of the Merger-Related Compensation Proposal. No broker non-votes will be cast at the special meeting, and therefore broker non-votes will have no effect on the vote count for the Merger-Related Compensation Proposal.

## **Table of Contents**

For the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal, you may vote FOR, AGAINST or ABSTAIN. Abstentions will have the same effect as a vote against the proposal to adjourn the special meeting. No broker non-votes will be cast at the special meeting, and therefore broker non-votes will have no effect on the vote count for the proposal to adjourn the special meeting.

If you hold your shares in your name and you sign and return your proxy card without indicating your vote, your shares will be voted FOR the approval of the Share Issuance Proposal, FOR the approval of the Merger-Related Compensation Proposal, and FOR the adjournment of the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal.

### **Q: Who is entitled to vote at the special meeting?**

**A:** All holders of record of PMC Commercial Common Shares as of the close of business on [ ], 2013, which is the record date for the special meeting, are entitled to vote at the special meeting, unless a new record date is fixed for any adjournment or postponement of the special meeting. As of the record date, there were [ ] issued and outstanding PMC Commercial Common Shares. The holder of each PMC Commercial Common Share outstanding on the record date is entitled to one vote per share on each proposal presented at the special meeting.

### **Q: What happens if I sell my PMC Commercial Common Shares before the special meeting?**

**A:** The record date of the special meeting is earlier than the date of the special meeting, the date that the Merger is expected to be completed and the record date for the Special Dividend in connection therewith. If you sell your PMC Commercial Common Shares after the record date for the special meeting, but before the record date for the Special Dividend, you will retain your right to vote at the special meeting, but you will have forfeited your right to receive the Special Dividend. In order to receive the Special Dividend, you must hold your PMC Commercial Common Shares through the record date of the Special Dividend, which is expected to be declared on the last business day prior to consummation of the Merger.

### **Q: How do I vote?**

**A:** You may submit your proxy either by telephone, through the Internet or by mailing the enclosed proxy card, or you may vote in person at the special meeting.

To submit your proxy by telephone, dial 1-800-[ ] using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the enclosed proxy card. To submit your proxy through the Internet, visit [www.\[ \]](http://www.[ ]). You will be asked to provide the company number and control number from the enclosed proxy card. Proxies submitted by telephone or through the Internet must be received by [ ], [ ].m., Central Daylight Time, on [ ], 2013.

To submit your proxy by mail, complete, date and sign each proxy card you receive and return it as promptly as practicable in the enclosed prepaid envelope. If you sign and return your proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted FOR the proposal to approve the Share Issuance Proposal, FOR the Merger Related Compensation Proposal and FOR the adjournment proposal.

If you hold your shares in street name, please read the immediately following question and answer.

**Q: My shares are held in street name by my bank, broker or other custodian. Will my bank, broker or other custodian vote my shares for me?**

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

- A:** Your bank, broker or other custodian will only be permitted to vote your shares if you instruct your bank, broker or other custodian how to vote. You should follow the procedures provided by your bank, broker or

**Table of Contents**

other custodian regarding the voting of your shares. If you do not instruct your bank, broker or other custodian how to vote your shares, your shares will not be voted and will have no effect on the vote count for the Share Issuance Proposal, the Merger-Related Compensation Proposal or the proposal to adjourn the special meeting.

**Q: How can I revoke or change my vote?**

A: You may revoke your proxy at any time before the vote is taken at the special meeting in any of the following ways:

submitting a later proxy by telephone or through the Internet prior to [                    ], [                    ] m., Central Daylight Time, on [                    ], 2013,

filing with the Corporate Secretary of PMC Commercial, before the taking of the vote at the special meeting, a written notice of revocation bearing a later date than the proxy card,

duly executing a later dated proxy card relating to the same shares and delivering it to the Corporate Secretary of PMC Commercial before the taking of the vote at the special meeting, or

voting in person at the special meeting.

Your attendance at the special meeting does not automatically revoke your previously submitted proxy. If you have instructed your bank, broker or other custodian to vote your shares, the options described above for revoking your proxy do not apply. Instead, you must follow the directions provided by your bank, broker or other custodian to change your vote.

**Q: What if I do not vote?**

A: If you are not represented (in person or by proxy) at the special meeting, it will have no effect on the vote count for any of the proposals. If you attend the special meeting in person but do not vote, your presence will have the same effect as a vote cast against the Share Issuance Proposal, the Merger-Related Compensation Proposal and the proposal to adjourn the special meeting.

**Q: When do you expect to complete the Merger?**

A: We are working to complete the Merger during the fourth quarter of 2013.

**Q: What happens if the Merger is not completed?**

A: If the Share Issuance Proposal is not approved by PMC Commercial shareholders or if the Merger is not completed for any other reason, PMC Commercial would remain an independent company. Under certain circumstances, PMC Commercial may be required to pay CIM REIT a termination fee and reimburse CIM REIT for certain of its out-of-pocket expenses as described under THE MERGER AGREEMENT Termination Fees and Expenses beginning on page 99.

**Q: Am I entitled to exercise dissenters' rights?**

**A:** No. Shareholders of PMC Commercial will not be entitled to exercise dissenters' rights with respect to any matter to be voted upon at the special meeting. Any shareholder may abstain from or vote against any matters to be voted on at the special meeting.

**Q: Is the Merger expected to be taxable to me?**

**A:** The Special Dividend should be treated as a distribution from PMC Commercial to the holders of PMC Commercial Common Shares under Section 301 of the Internal Revenue Code of 1986, as amended (the "Code").



---

**Table of Contents**

In general, a distribution (such as the Special Dividend) made to PMC Commercial's taxable domestic shareholders with respect to their PMC Commercial Common Shares, other than capital gain distributions and distributions attributable to taxable REIT subsidiaries, will be ordinary income to the holders of PMC Commercial Common Shares to the extent of PMC Commercial's earnings and profits. Such a distribution will not be eligible for the dividends received deduction for shareholders that are corporations nor will it constitute qualified dividend income under the Code, meaning that the dividend will be taxed at marginal rates applicable to ordinary income rather than the special reduced rates currently applicable to qualified dividend income. The portion of an ordinary dividend that represents ordinary dividends PMC Commercial receives from a taxable REIT subsidiary will be designated as qualified dividend income to REIT shareholders. Such a qualified dividend is eligible for preferential tax rates if paid to PMC Commercial's non-corporate shareholders.

To the extent the Special Dividend exceeds PMC Commercial's earnings and profits, the distribution will be considered a return of capital. Such a distribution will be treated as a tax free distribution and will reduce the tax basis of a shareholder's PMC Commercial Common Shares by the amount of the distribution so treated. To the extent the distribution exceeds a taxable domestic shareholder's tax basis, the distribution will be taxable as gain from the sale of shares.

You should consult your tax advisor for a complete analysis of the effect of the Merger on your federal, state and local and/or foreign taxes. Additional information relating to material U.S. federal income tax consequences of the Merger can be found in MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES beginning on page 108.

**Q: How can I obtain additional information about PMC Commercial?**

**A:** PMC Commercial files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). PMC Commercial will provide copies of its reports, proxy statements and other information, including this proxy statement/prospectus, without charge to any shareholder who makes a request to PMC Commercial Trust, 17950 Preston Road, Suite 600, Dallas, Texas 75252, Attention: Investor Relations, or at (972) 349-3235. PMC Commercial's filings with the SEC may also be accessed on the Internet at [www.sec.gov](http://www.sec.gov) or on the Investor Resources page of PMC Commercial's website at [www.pmctrust.com](http://www.pmctrust.com). The information provided on PMC Commercial's website is not part of this proxy statement/prospectus and is not incorporated by reference into this proxy statement/prospectus. For a more detailed description of the information available, please see WHERE YOU CAN FIND MORE INFORMATION on page 204.

**Q: Who can help answer my questions?**

**A:** If you have additional questions about the Merger or the special meeting after reading this proxy statement/prospectus, please call PMC Commercial's proxy solicitor, [REDACTED], Inc., toll-free at [REDACTED]. If your bank, broker or other custodian holds your shares, you may also call your bank, broker or other custodian for additional information.

**Q: What else do I need to do now?**

**A:** You are urged to read this proxy statement/prospectus carefully and in its entirety, including its annexes, and to consider how the Merger affects you. Even if you plan to attend the special meeting, if you hold your shares in your own name as the shareholder of record, please vote your shares by completing, signing, dating and returning the enclosed proxy card. You can also attend the special meeting and vote, or change your prior vote, in person. If you hold your shares in street name through a bank, broker or other custodian, then you should have received this proxy statement/prospectus from that custodian, along with that custodian's proxy card which includes voting instructions and instructions to vote.

**Table of Contents**

**SUMMARY TERM SHEET**

The following summary highlights selected information in this proxy statement/prospectus and may not contain all the information that may be important to you with respect to the Merger Agreement, the Merger or the special meeting. Accordingly, you are encouraged to read this proxy statement/prospectus, including its annexes, carefully and in its entirety. Each item in this summary includes a page reference directing you to a more complete description of that topic. See also WHERE YOU CAN FIND MORE INFORMATION on page 204.

**Parties to the Merger (Page 61)**

**PMC Commercial Trust**

17950 Preston Road, Suite 600

Dallas, Texas 75252

(972) 349-3200

PMC Commercial is a Texas real estate investment trust organized in 1993 that primarily originates loans to small businesses collateralized by first liens on the real estate of the related business, predominantly in the hospitality industry (94% at June 30, 2013). Its operations are located in Dallas, Texas and include originating, servicing and selling the government guaranteed portions of certain loans. PMC Commercial originates loans, either directly or through its wholly-owned lending subsidiaries, as follows: First Western SBLC, Inc., PMC Investment Corporation and Western Financial Capital Corporation. First Western is licensed as a small business lending company that originates loans through the Small Business Administration's 7(a) Guaranteed Loan Program. PMCI and Western Financial are licensed small business investment companies.

**Southfork Merger Sub, LLC**

c/o PMC Commercial Trust

17950 Preston Road, Suite 600

Dallas, Texas 75252

(972) 349-3200

Southfork Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of PMC Commercial, or PMC Merger Sub, was formed solely for the purpose of completing the Merger and has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

**CIM Urban REIT, LLC**

c/o CIM Group

6922 Hollywood Blvd., Ninth Floor

Los Angeles, California 90028

Attn: General Counsel

(323) 860-4900

CIM Urban REIT, LLC, a Delaware limited liability company, invests, through its operating partnership subsidiary, CIM Urban Partners L.P., primarily in substantially stabilized real estate and real estate-related assets in high density, high barrier to entry urban markets throughout North America, which CIM Group has targeted for opportunistic investment and which are likely, in CIM Group's opinion, to experience above-average rent growth relative to national averages and/or their neighboring central business district (CBDs).



## **Table of Contents**

### **CIM Merger Sub, LLC**

c/o CIM Group

6922 Hollywood Blvd., Ninth Floor

Los Angeles, California 90028

Attn: General Counsel

(323) 860-4900

CIM Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of CIM REIT, was formed solely for the purpose of completing the Merger and has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

### **The Special Meeting (Page 62)**

**Date, Time and Place.** The special meeting of the PMC Commercial shareholders will be held at [ ] on [ ], 2013 at 9:00 a.m., Central Daylight Time.

**Purpose.** At the special meeting, PMC Commercial shareholders will be asked to approve the Share Issuance Proposal and to approve any adjournment of the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal.

**Record Date; Voting Rights.** You are entitled to vote at the special meeting if you owned PMC Commercial Common Shares at the close of business on [ ], 2013, the record date for the special meeting, unless a new record date is fixed for any adjournment or postponement of the special meeting. As of the record date, there were [ ] PMC Commercial Common Shares issued and outstanding. The holder of each PMC Commercial Common Share outstanding on the record date is entitled to one vote per share.

**Quorum.** The holders of a majority of the outstanding PMC Commercial Common Shares entitled to vote at the special meeting and present in person or represented by proxy will constitute a quorum at the special meeting.

**Required Vote.** The approval of the Share Issuance Proposal requires the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting.

The approval of the Merger-Related Compensation Proposal requires the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting.

The approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal will require the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting. Less than a quorum may adjourn the special meeting.

**Voting; Proxies.** Votes may be cast either in person or by a properly executed proxy at the special meeting. Abstentions will have the same effect as votes against the approval of the Share Issuance Proposal, the Merger-Related Compensation Proposal and the proposal to adjourn the special meeting. Inasmuch as no routine matters will be voted upon at the special meeting, no broker non-votes will be cast at the special meeting, and therefore broker non-votes will have no effect on the vote count for the Share Issuance Proposal, the Merger-Related Compensation Proposal or the proposal to adjourn the special meeting.

**Revocation.** Any proxy given by a shareholder pursuant to this solicitation may be revoked at any time before the vote is taken at the special meeting in any of the following ways:

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

submitting a later proxy by telephone or through the Internet prior to [ ], [ ].m., Central Daylight Time, on [ ], 2013,

**Table of Contents**

filing with the Corporate Secretary of PMC Commercial, before the taking of the vote at the special meeting, a written notice of revocation bearing a later date than the proxy card,

duly executing a later dated proxy card relating to the same shares and delivering it to the Corporate Secretary of PMC Commercial before the taking of the vote at the special meeting, or

voting in person at the special meeting, although attendance at the special meeting will not by itself constitute a revocation of a proxy.

**Solicitation of Proxies; Costs.** PMC Commercial is soliciting proxies on behalf of the Board of Trust Managers. PMC Commercial will bear the costs of soliciting proxies. In addition to the solicitation of proxies by use of the mails, proxies may be solicited from shareholders by Trust Managers, officers and employees of PMC Commercial in person or by telephone, by facsimile, on the Internet or other appropriate means of communications. No additional compensation, except for reimbursement of reasonable out-of-pocket expenses, will be paid to Trust Managers, officers and employees of PMC Commercial in connection with this solicitation. PMC Commercial has retained [ ] to solicit, and for advice and assistance in connection with the solicitation of, proxies for the special meeting at a cost of \$[ ], including out-of-pocket expenses.

**The Merger (Page 64)**

Under the Merger Agreement, CIM Merger Sub will be merged with and into PMC Merger Sub. PMC Merger Sub will be the surviving entity in the Merger. Upon completion of the Merger:

PMC Commercial will become the parent of CIM Urban and its subsidiaries; and

PMC Commercial will issue to the CIM Parties 22,000,003 PMC Commercial Common Shares and 65,028,571 PMC Commercial Preferred Shares.

## **Table of Contents**

### **Post-Merger Structure**

The following diagram summarizes the structure of PMC Commercial after the Merger, assuming that it is completed as provided in the Merger Agreement:

- (1) Following the Merger, the CIM Parties will own PMC Commercial Common Shares and PMC Commercial Preferred Shares representing beneficial ownership of approximately 97.8% of the total PMC Commercial Common Shares (assuming conversion of the PMC Commercial Preferred Shares). The pre-Merger holders of PMC Commercial Common Shares will own the remaining 2.2% of the total PMC Commercial Common Shares (assuming conversion of the PMC Commercial Preferred Shares).*
- (2) Effective upon the closing of the Merger, the Manager and PMC Commercial will enter into a Master Services Agreement pursuant to which an affiliate of CIM Group will become the manager of the general partner of CIM Urban.*
- (3) Pursuant to an Investment Management Agreement, the Advisor manages CIM Urban and its investments.*
- (4) The Manager and the Advisor are wholly-owned subsidiaries of the CIM Group. Shaul Kuba, Richard Ressler and Avi Shemesh, together with their respective heirs and trusts for the benefit of their respective*

**Table of Contents**

*heirs, directly and indirectly, control and are the majority owners of CIM Group and its subsidiaries. Messrs. Kuba, Ressler and Shemesh will, following the consummation of the Merger, serve as Trust Managers of PMC Commercial.*

**Effective Time of the Merger (Page 86)**

The Merger will become effective:

at such time as the certificate of merger has been filed with the Secretary of State of the State of Delaware, or

at such later time as PMC Commercial and CIM REIT shall agree and specify in the certificate of merger to be filed with the Secretary of State of the State of Delaware.

PMC Commercial and CIM REIT will cause the effective time to occur on the closing date, which will occur no later than the second business day after satisfaction or waiver of the conditions to consummation of the Merger.

**Conditions to Complete the Merger (Page 95)**

The obligations of PMC Commercial and CIM REIT to complete the Merger are subject to the satisfaction or waiver of a number of conditions, including, but not limited to, the following:

the approval of the Share Issuance Proposal by PMC Commercial's shareholders;

any waiting period applicable to the Merger under the HSR Act shall have been terminated or expired;

a national securities exchange mutually acceptable to CIM REIT and PMC Commercial shall have approved for listing the PMC Commercial Common Shares and the PMC Commercial Preferred Shares, including the PMC Commercial Common Shares and the PMC Commercial Preferred Shares to be issued in the Merger and all PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares;

the SBA shall have approved those aspects of the Merger subject to its jurisdiction, and such approval shall not contain any terms or conditions that are unacceptable to CIM REIT or PMC Commercial or are inconsistent with the Merger Agreement;

the registration statement on Form S-4 filed with the SEC by PMC Commercial, of which this proxy statement/prospectus constitutes a part, shall have been declared effective, and no stop order or proceeding suspending the effectiveness of the Form S-4 shall have been initiated or threatened by the SEC and not withdrawn;

no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger shall be in effect;

PMC Commercial shall have received all state securities or "blue sky" permits and other authorizations necessary to issue the PMC Commercial Common Shares and the PMC Commercial Preferred Shares pursuant to the Merger Agreement;



## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

all other consents, approvals, orders, authorizations, registrations, and declarations of any governmental entity required to consummate the Merger shall have been obtained and remain in full force and effect, except for such consents, approvals, orders, authorizations, registrations, or declarations which, if not obtained or made, would not prevent or delay in any material respect the consummation of the Merger or otherwise prevent the parties from performing their respective obligations under the Merger Agreement in any material respect or have a material adverse effect;

---

**Table of Contents**

CIM REIT and PMC Commercial shall have received opinions of counsel to CIM REIT, dated as of the closing date, reasonably satisfactory to CIM REIT and PMC Commercial, that (A) after giving effect to the Merger, PMC Commercial's proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code, and (B) the Merger should qualify as a transfer of property by CIM REIT to PMC Commercial solely in exchange for shares of PMC Commercial, as described in section 351(a) of the Code;

since the date of the Merger Agreement, there shall have been no CIM Material Adverse Change or PMC Commercial Material Adverse Change (as such terms are defined under the section entitled THE MERGER AGREEMENT Conditions to Complete the Merger );

all consents and waivers from third parties necessary in connection with the consummation of the Merger shall have been obtained, other than such consents and waivers from third parties, which, if not obtained, would not result, individually or in the aggregate, in a CIM Material Adverse Effect or PMC Commercial Material Adverse Effect;

PMC Commercial shall have received an opinion of counsel to CIM REIT dated as of the closing date, reasonably satisfactory to PMC Commercial, to the effect that each REIT subsidiary of CIM Urban has been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code at all times since the formation of such REIT subsidiary through the closing date; and

CIM REIT shall have received an opinion of counsel to PMC Commercial dated as of the closing date, reasonably satisfactory to CIM REIT, to the effect that, at all times since its taxable year ended December 31, 2007 through the closing date, PMC Commercial has been organized and operated in conformity with the requirements for qualification as a REIT under the Code.

**Recommendation of PMC Commercial's Board of Trust Managers (Page 73)**

After careful consideration, the Board of Trust Managers has unanimously (i) determined that the Merger Agreement and the Merger, including the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares as provided in the Merger Agreement, are advisable, fair to and in the best interests of PMC Commercial and its shareholders, and (ii) approved the Merger Agreement and the annexes attached thereto, as well as the Merger and the issuance of the PMC Commercial Common Shares and the PMC Commercial Preferred Shares to the CIM Parties, as provided in the Merger Agreement. **The Board of Trust Managers unanimously recommends that you vote FOR the approval of the Share Issuance Proposal and FOR adjournment of the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal.**

**Opinion of PMC Commercial's Financial Advisor (Page 73)**

In connection with the Merger, the Board of Trust Managers received an opinion, dated July 8, 2013, of Sandler O'Neill + Partners, L.P. as to the fairness, from a financial point of view, of the Merger Consideration to PMC Commercial and its shareholders. The full text of the written opinion is attached as Annex E to this proxy statement/prospectus and is incorporated herein by reference. The written opinion sets forth, among other things, the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. **The opinion was addressed to the Board of Trust Managers (in its capacity as such) for its information and use in connection with its evaluation of the Merger Consideration from a financial point of view and did not address any other terms, aspects or implications of the Merger. Sandler O'Neill's opinion did not address the underlying business decision by PMC Commercial to enter into the Merger Agreement, the relative merits of the Merger compared with other alternative business strategies that might exist for PMC Commercial, or the effect of any other transaction in which PMC Commercial might engage. The opinion does not constitute a recommendation by Sander O'Neill, the Board of Trust Managers or any other person or entity in respect of any aspect of the Merger, including as to how any shareholder should vote or act in connection with the Merger, the Share Issuance Proposal, or any other matters.**

## **Table of Contents**

### **Interests of PMC Commercial Trust Managers and Executive Officers in the Merger (Page 79)**

In considering the recommendation of the Board of Trust Managers, you should be aware that some of PMC Commercial's Trust Managers and executive officers have interests in the Merger that are different from, or in addition to, your interests as a shareholder and that may present actual or potential conflicts of interest. These interests include:

accelerated vesting of an aggregate of 6,666 PMC Commercial Common Shares subject to vesting conditions, which are held in equal amounts by Jan F. Salit and Barry N. Berlin upon a change of control, including the Merger;

certain benefits to be provided to Messrs. Salit and Berlin under their Restated Executive Employment Agreements (as defined in the section entitled "The Merger Interests of PMC Commercial Trust Managers and Executive Officers in the Merger") with PMC Commercial;

continued employee benefits for PMC Commercial executive officers in accordance with the terms of the Merger Agreement; and

indemnification and insurance coverage for PMC Commercial Trust Managers and executive officers, as provided in the Merger Agreement.

### **No Dissenters' Rights (Page 203)**

PMC Commercial shareholders will not be entitled to exercise dissenters' or appraisal rights with respect to any matter to be voted upon at the special meeting.

### **Material U.S. Federal Income Tax Consequences (Page 108)**

The Special Dividend should be treated as a distribution from PMC Commercial to the holders of PMC Commercial Common Shares under Section 301 of the Code.

You should consult your tax advisor for a complete analysis of the effect of the Merger on your federal, state and local and/or foreign taxes. Additional information of the material U.S. federal income tax consequences of the Merger can be found in "MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES" beginning on page 108.

### **Acquisition Proposals; Go-Shop Period (Page 94)**

The Go-Shop Period (as defined in "THE MERGER AGREEMENT Acquisition Proposals Go-Shop Period") provided for in the Merger Agreement ended on August 6, 2013. During the Go-Shop Period, PMC Commercial and its representatives had the right to:

initiate, solicit and encourage any inquiry or the making of any proposals or offers that constitute Acquisition Proposals (as defined in "THE MERGER AGREEMENT Acquisition Proposals Go-Shop Period"), including by way of providing access to non-public information to any person pursuant to a confidentiality agreement, and

engage or enter into or otherwise participate in any discussions or negotiations with any persons or groups of persons with respect to any Acquisition Proposals or otherwise cooperate with or assist or participate in, or facilitate any such inquiries, proposals, discussions or negotiations or any effort or attempt to make any Acquisition Proposals.

See "THE MERGER AGREEMENT Acquisition Proposals Go-Shop Period" beginning on page 94 and "THE MERGER AGREEMENT Termination Fees and Expenses" beginning on page 99.



## **Table of Contents**

### **No-Shop Period (Page 94)**

The No-Shop Period began after the Go-Shop Period terminated. Upon termination of the Go-Shop Period, PMC Commercial and its officers and representatives were obligated to immediately cease any discussions or negotiations with any persons that were ongoing with respect to an Acquisition Proposal.

During the No-Shop Period, PMC Commercial and its officers and representatives shall not (A) initiate, solicit or encourage any inquiries or the making of any proposal or offer that constitutes an Acquisition Proposal, (B) engage in or otherwise participate in any discussions or negotiations regarding, or provide any non-public information or data concerning PMC Commercial or its subsidiaries to any person relating to any Acquisition Proposal, (C) enter into any agreement or agreement in principle with respect to any Acquisition Proposal, or (D) otherwise knowingly facilitate any effort or attempt to make an Acquisition Proposal.

See THE MERGER AGREEMENT No-Shop Period beginning on page 94 and THE MERGER AGREEMENT Termination Fees and Expenses beginning on page 99.

### **Termination of the Merger Agreement (Page 98)**

The Merger Agreement may be terminated by mutual written consent of PMC Commercial and CIM REIT at any time before the completion of the Merger (including after PMC Commercial shareholders have approved the Merger Agreement). In addition, either PMC Commercial or CIM REIT may terminate the Merger Agreement at any time before the completion of the Merger if:

the Merger shall not have been consummated by December 31, 2013;

the PMC Commercial shareholders meeting shall have been held and completed and PMC Commercial shareholder approval of the Merger shall not have been obtained at such PMC Commercial shareholders meeting or at any adjournment or postponement thereof; or

any injunction permanently restraining, enjoining or otherwise prohibiting consummation of the Merger shall become final and non-appealable (whether before or after PMC Commercial shareholder approval has been obtained).

PMC Commercial may also terminate the Merger Agreement if any of the following occurs:

(i) the Board of Trust Managers authorizes PMC Commercial to enter into definitive transaction documentation providing for a superior proposal, (ii) immediately prior to or substantially concurrently with the termination of the Merger Agreement, PMC Commercial enters into an alternative acquisition agreement with respect to a superior proposal and (iii) PMC Commercial pays to CIM REIT the applicable termination fee; or

there has been a breach of any representation, warranty, covenant or agreement made by CIM REIT or CIM Merger Sub in the Merger Agreement such that the conditions set forth therein would not be satisfied and such breach or condition is not curable or, if curable, is not cured prior to the earlier of (i) 30 days after written notice thereof is given by PMC Commercial to CIM REIT and (ii) December 31, 2013.

CIM REIT may also terminate the Merger Agreement if any of the following occurs:

the Board of Trust Managers fails to recommend in the Proxy Statement the Merger or shall make a change of recommendation or shall approve, recommend or endorse an alternative Acquisition Proposal or resolves or publicly proposes to do any of the foregoing; or there shall have been a material breach by any of PMC Commercial's Trust Managers, officers or managers of certain of PMC

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

Commercial s covenants which cannot be or is not cured within five business days after written notice thereof; or

there has been a breach of any representation, warranty, covenant or agreement made by PMC Commercial or PMC Merger Sub in the Merger Agreement such that the conditions set forth therein

## **Table of Contents**

would not be satisfied and such breach cannot be or is not cured prior to the earlier of (i) 30 days after written notice thereof is given by CIM REIT to PMC Commercial and (ii) December 31, 2013.

### **Termination Fees and Expenses (Page 99)**

If the Merger Agreement is terminated under certain circumstances, PMC Commercial shall pay CIM REIT a termination fee of (i) \$4,000,000 (except that in the event the Merger Agreement was terminated by PMC Commercial in order to enter into an alternative acquisition agreement prior to the commencement of the No-Shop Period, the termination fee would have been equal to \$3,000,000), plus (ii) all reasonable documented out-of-pocket expenses of CIM REIT up to \$700,000 (exclusive of expenses incurred by PMC Commercial prior to the execution of the Merger Agreement and reimbursed by CIM REIT or its affiliates).

### **Summary of Key Risk Factors**

You should consider carefully all the risk factors together with all of the other information included in this proxy statement/prospectus before deciding how to vote. The risks are described in detail under the section **RISK FACTORS** beginning on page 37, and a summary of some key risk factors follows.

PMC Commercial shareholders will experience significant immediate dilution in percentage ownership and effective voting power;

there is no certainty as to the market value of the PMC Commercial shares to be issued to the CIM Parties if the Merger is completed;

the market price of the PMC Commercial Common Shares may decline as a result of the Merger;

the Merger may not be completed, which could adversely affect PMC Commercial's business and the market price of PMC Commercial Common Shares;

the Board of Trust Managers will initially include a majority of Trust Managers affiliated with the Advisor, and the CIM Parties will after the Merger have effective control over the outcome of all actions requiring PMC Commercial shareholder approval;

after the Merger, the CIM Parties will control the vote required for conversion of the PMC Commercial Preferred Shares, which if not timely converted could materially adversely affect the PMC Commercial Common Shares (as well as the PMC Commercial Preferred Shares);

inasmuch as a majority of CIM Urban's properties, by aggregate net operating income and square feet, are located in Oakland, California and the District of Columbia, CIM Urban is particularly susceptible to events or conditions that could adversely affect those markets;

the Advisor's fees are based on the gross asset value of CIM Urban's assets, including any assets acquired by CIM Urban in the future. This fee arrangement may lead the Advisor to recommend riskier investments regardless of their long-term performance in an effort to maximize its compensation;

certain of the Trust Managers and executive officers of PMC Commercial after the Merger may face conflicts of interests related to positions they hold with the Advisor, CIM Group and their affiliates, which could result in decisions that are not in the best interests of PMC Commercial's shareholders;

CIM Urban competes with current and future investment entities affiliated with the Advisor for access to the benefits that CIM Urban's relationship with the Advisor provides to CIM Urban, including access to investment opportunities;

after the Merger, the business of CIM Urban will be managed by Urban GP Manager (as defined under the section entitled "RISK FACTORS"), an affiliate of the CIM Parties, and PMC Commercial will have limited rights with respect to the management and control of CIM Urban;

CIM Urban is subject to certain investment limitations that may inhibit CIM Urban's ability to make investments that otherwise meet its investment strategy;



**Table of Contents**

PMC Commercial cannot assure you that it will in the future be able to pay dividends;

following the Merger, subject to the Board of Trust Manager's supervision, the Manager will have the right to manage the business of PMC Commercial and its subsidiaries pursuant to the Master Services Agreement and other investment management agreements, which agreements may be assigned in certain circumstances without PMC Commercial's consent and may not be terminated by PMC Commercial, except in the case of the Master Services Agreement, in limited circumstances for cause, either or both of which contractual features may have a material adverse effect on PMC Commercial; and

the market price of PMC Commercial Common Shares may decline as a result of actual or potential sales of the PMC Commercial Common Shares, even if PMC Commercial's business is doing well.

**Share Ownership of Trust Managers and Executive Officers of PMC Commercial**

At the close of business on [ ], 2013, the Trust Managers and executive officers of PMC Commercial and their affiliates held and were entitled to vote [ ] PMC Commercial Common Shares, collectively representing less than [ ]% of the PMC Commercial Common Shares outstanding and entitled to vote on that date. The Trust Managers and executive officers of PMC Commercial have each indicated that they expect to vote FOR the Share Issuance Proposal, FOR the Merger-Related Compensation Proposal and FOR the proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the Share Issuance Proposal.

**Table of Contents**

**SELECTED HISTORICAL CONSOLIDATED  
FINANCIAL DATA OF PMC COMMERCIAL**

The following table sets forth selected consolidated historical financial information derived from (i) PMC Commercial's unaudited consolidated financial statements as of and for the six months ended June 30, 2013 and 2012 contained in its Quarterly Report on Form 10-Q filed with the SEC on August 9, 2013, a copy of which is incorporated herein by reference, and (ii) PMC Commercial's audited financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 contained in its Annual Report on Form 10-K filed with the SEC on March 18, 2013, a copy of which is incorporated herein by reference. The selected historical financial information for each of the years ended December 31, 2009 and 2008 and the selected balance sheet data as of December 31, 2010, 2009 and 2008 have been derived from PMC Commercial's audited consolidated financial statements for such years contained in PMC Commercial's reports filed with the SEC, which are not incorporated by reference into this proxy statement/prospectus.

You should read the selected historical financial information presented below together with the financial statements included in PMC Commercial's Quarterly Report on Form 10-Q for the six months ended June 30, 2013, filed with the SEC on August 9, 2013, and Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 18, 2013, each of which is incorporated herein by reference, and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations of PMC Commercial contained in such reports. See also **WHERE YOU CAN FIND MORE INFORMATION** on page 204.

	Six Months Ended June 30,		Years Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
	<i>(Dollars in thousands, except per share information)</i>						
Total revenues(1)	\$ 8,999	\$ 7,751	\$ 17,065	\$ 16,076	\$ 15,463	\$ 16,267	\$ 23,117
Total expenses(2)	\$ 5,971	\$ 7,811	\$ 17,856	\$ 11,270	\$ 10,752	\$ 10,377	\$ 13,776
Income (loss) from continuing operations	\$ 2,438	\$ (99)	\$ (1,356)	\$ 4,692	\$ 4,842	\$ 6,057	\$ 9,022
Discontinued operations(3)	\$ (248)	\$ (471)	\$ (823)	\$ (1,045)	\$ (545)	\$ 704	\$ 784
Net income (loss)(4)	\$ 2,190	\$ (570)	\$ (2,179)	\$ 3,647	\$ 4,297	\$ 6,761	\$ 9,806
Basic weighted average common shares outstanding	10,594	10,581	10,585	10,570	10,554	10,573	10,767
Basic and diluted earnings (loss) per common share:							
Income (loss) from continuing operations(1)	\$ 0.23	\$ (0.01)	\$ (0.13)	\$ 0.44	\$ 0.46	\$ 0.57	\$ 0.84
Net income (loss)	\$ 0.21	\$ (0.05)	\$ (0.21)	\$ 0.34	\$ 0.41	\$ 0.64	\$ 0.91
Dividends declared, common	\$ 2,650	\$ 3,388	\$ 6,353	\$ 6,767	\$ 6,757	\$ 7,445	\$ 10,908
Dividends per common share	\$ 0.250	\$ 0.32	\$ 0.60	\$ 0.64	\$ 0.64	\$ 0.705	\$ 1.015
Return on total assets(5)	3.61%	0.97%	0.73%	2.96%	3.41%	4.15%	6.15%
Return on equity(6)	3.17%	-0.79%	-1.53%	2.46%	2.85%	4.43%	6.33%

	At June 30,		At December 31,				
	2013	2012	2012	2011	2010 (7)	2009	2008
	<i>(In thousands)</i>						
Loans receivable, net	\$ 235,116	\$ 243,759	\$ 238,991	\$ 234,427	\$ 233,218	\$ 196,642	\$ 179,807
Retained interests in transferred assets	\$ 739	\$ 834	\$ 773	\$ 996	\$ 1,010	\$ 12,527	\$ 33,248
Total assets	\$ 248,674	\$ 254,853	\$ 247,707	\$ 251,247	\$ 252,127	\$ 228,243	\$ 227,524
Debt	\$ 101,805	\$ 101,470	\$ 97,168	\$ 95,861	\$ 92,969	\$ 68,509	\$ 61,814
Total beneficiaries' equity	\$ 137,912	\$ 142,879	\$ 138,326	\$ 146,836	\$ 149,660	\$ 151,558	\$ 153,462
Net asset value per common share	\$ 13.10	\$ 13.58	\$ 13.15	\$ 13.97	\$ 14.26	\$ 14.45	\$ 14.43

**Table of Contents**

- (1) *The decrease in total revenues and income from continuing operations from 2008 to 2010 is primarily due to declines in LIBOR. At both December 31, 2012 and June 30, 2013, approximately 53% of PMC Commercial's loans were based on LIBOR. In addition, due to a change in accounting rules effective January 1, 2010, PMC Commercial's total revenues will fluctuate significantly based on secondary market loan sales and recorded premium income.*
- (2) *During the six months ended June 30, 2013, includes \$0.4 million of transaction costs related to the Merger. During the six months ended June 30, 2012, includes \$2.2 million related to evaluation of strategic alternatives. During 2012, includes \$3.9 million related to the evaluation of strategic alternatives and \$2.1 million of severance and related benefits expense.*
- (3) *We foreclosed on the underlying collateral of three hospitality properties during 2010 which generated significant operating and impairment losses during the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013.*
- (4) *The decrease in net income (loss) from 2011 to 2012 is due primarily to costs associated with the evaluation of strategic alternatives of \$3.9 million and severance and related benefits expense of \$2.1 million during 2012. The increase in net income (loss) from the six months ended June 30, 2012 to the six months ended June 30, 2013 is primarily due to the elimination of costs associated with evaluation of strategic alternatives of \$2.2 million during the six months ended June 30, 2012.*
- (5) *Earnings (loss) before interest expense and income taxes as a percentage of average total assets, percentages for the periods ending June 30, 2013 and 2012 have been annualized.*
- (6) *Earnings (loss) as a percentage of average total beneficiaries' equity, percentages for the periods ending June 30, 2013 and 2012 have been annualized.*
- (7) *Effective January 1, 2010, due to a change in accounting rules, the assets and liabilities of the off-balance sheet securitizations were consolidated. In addition, effective January 1, 2010, due to a change in accounting rules, proceeds received from legally sold portions of loans pursuant to secondary market loan sales (those sold for excess spread or those sold for a 10% cash premium and excess spread) are permanently treated as secured borrowings for the life of the loan.*

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED****FINANCIAL DATA OF CIM URBAN**

The following table sets forth selected historical financial information derived from (i) CIM Urban's unaudited financial statements included elsewhere in this proxy statement/prospectus as of and for the six months ended June 30, 2013 and 2012, (ii) CIM Urban's audited financial statements included elsewhere in this proxy statement/prospectus as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 and (iii) CIM Urban's audited financial statements not included in this proxy statement/prospectus as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2009 and 2008. You should read the following selected financial data in conjunction with the section entitled "CIM Urban's Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and the related notes appearing elsewhere in this proxy statement/prospectus.

**Selected Historical Financial Data**

*In Thousands*

	Six Months Ended June 30,		Years Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
<b>Statement of Operations Data:</b>							
Revenues	\$ 118,146	\$ 116,639	\$ 232,513	\$ 213,293	\$ 210,662	\$ 196,296	\$ 140,947
Expenses	107,516	104,477	212,716	206,984	205,117	201,678	135,777
<b>Income (loss) from continuing operations(1)</b>	<b>10,630</b>	<b>12,162</b>	<b>19,797</b>	<b>6,309</b>	<b>5,545</b>	<b>(5,382)</b>	<b>5,170</b>
Income (loss) from discontinued operations(2)					8,120	187	(1,794)
<b>Net income (loss)</b>	<b>10,630</b>	<b>12,162</b>	<b>19,797</b>	<b>6,309</b>	<b>13,665</b>	<b>(5,195)</b>	<b>3,376</b>
Noncontrolling interest	(109)	(106)	(208)	(187)	(137)	15	(292)
<b>Net income (loss) attributable to CIM Urban</b>	<b>\$ 10,521</b>	<b>\$ 12,056</b>	<b>\$ 19,589</b>	<b>\$ 6,122</b>	<b>\$ 13,528</b>	<b>\$ (5,180)</b>	<b>\$ 3,084</b>
Funds from Operation (FFO)	\$ 45,300	\$ 46,753	\$ 89,740	\$ 75,113	\$ 78,357	\$ 76,643	\$ 53,251
Dividends declared by CIM REIT(3)	\$ 42,000	\$ 36,000	\$ 76,000	\$ 68,000	\$ 65,500	\$ 57,500	\$ 49,000
	At June 30,		At December 31,				
	2013	2012	2012	2011	2010	2009	2008
<b>Balance Sheet Data:</b>							
Total assets	\$ 1,854,788	\$ 1,888,085	\$ 1,870,712	\$ 1,916,009	\$ 1,888,418	\$ 2,024,172	\$ 1,506,293
Debt	366,964	335,150	345,631	324,537	241,581	332,460	289,255
Equity	1,435,550	1,497,553	1,466,073	1,519,521	1,581,547	1,629,970	1,156,014

(1) The loss from continuing operations in 2009 reflects the impact of the loss of the primary tenant in two of CIM Urban's office properties located in the District of Columbia market during the period.

(2) The income (loss) from discontinued operations for the years ended December 31, 2010, 2009 and 2008 represent the activities of a hotel property that was sold in December 2010.

(3) Represents dividends declared by CIM REIT, which are funded by distributions from CIM Urban.

---

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma financial information is intended to show how the Merger might have affected historical financial statements as if the Merger had been completed on January 1, 2012, the beginning of the earliest period being presented, for the purposes of the statements of operations for the year ended December 31, 2012 and the six months ended June 30, 2013, and on June 30, 2013 for balance sheet presentation. The unaudited pro forma condensed combined financial statements (the Pro Forma Financial Statements ) are based on the historical consolidated financial position and results of operations of CIM Urban and PMC Commercial. The following should be read in conjunction with the audited and unaudited historical financial statements of CIM Urban and the notes thereto beginning on pages F-1 and F-7 respectively, the sections entitled CIM Urban s Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 162, the audited and unaudited historical financial statements of PMC Commercial and the notes thereto incorporated herein by reference, Management s Discussion and Analysis of Financial Condition and Results of Operations in PMC Commercial s Annual Report on Form 10-K for the year ended December 31, 2012 and Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, each of which are incorporated herein by reference, and the other financial information contained in this proxy statement/prospectus.

U.S. Generally Accepted Accounting Principles ( GAAP ), require that for each business combination, one of the combining entities shall be identified as the acquirer, and the existence of a controlling financial interest shall be used to identify the acquirer in a business combination. In a business combination effected primarily by exchanging equity interests, the acquirer usually is the entity that issues its equity interests. However, the acquirer for accounting purposes may not be the legal acquirer (i.e., the entity that issues its equity interest to effect the business combination).

After taking in consideration all relevant facts, CIM Urban is considered to be the acquirer for accounting purposes primarily because it will obtain effective control of PMC Commercial. The Merger will constitute the acquisition of a business for purposes of Financial Accounting Standards Board s Accounting Standards Codification 805, Business Combinations, or ASC 805. As a result, PMC Commercial s assets and liabilities will be recorded at their estimated fair values. The allocation of the purchase price used in the unaudited pro forma condensed combined financial statements is based upon a preliminary valuation. Estimates and assumptions are subject to change upon finalization of these preliminary valuations within one year of consummation of the Merger.

As a result, the Merger will be accounted for as a reverse acquisition. At the transaction date, CIM Urban s assets and liabilities will be presented at their pre-combination amounts, and PMC Commercial s assets and liabilities will be recorded and measured at fair value. In addition, the consolidated equity will reflect PMC Commercial Common Shares and PMC Commercial Preferred Shares, at par value, as PMC Commercial is the legal acquirer. The total consolidated equity will consist of CIM Urban s equity just before the Merger, plus the fair value of assumed assets of PMC Commercial, net, as well as adjustments to equity caused by the consummation of the Merger, as per the guidance for business combinations in ASC 805.

The Pro Forma Financial Statements were prepared in accordance with Article 11 of SEC Regulation S-X. The pro forma adjustments reflecting the completion of the Merger are based upon the acquisition method of accounting in accordance with GAAP, and upon the assumptions set forth in the notes to the unaudited pro forma condensed combined financial statements.

The unaudited Pro Forma Financial Statements are not intended to represent or be indicative of the consolidated results of operations or financial position that would have been reported had the Merger been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position. The Pro Forma Financial Statements are based upon available information and certain assumptions that management believes are reasonable.

**Table of Contents**

The historical financial data has been adjusted to give pro forma effect to events that are (i) directly attributable to the Merger, (ii) factually supportable, and (iii) with respect to the statements of operations, expected to have a continuing impact on the combined results. The unaudited Pro Forma Financial Statements do not reflect any revenue enhancements, anticipated synergies, operating efficiencies, or cost savings that may be achieved. The allocation of the purchase price to the assets and liabilities acquired reflected in the pro forma financial data is preliminary and is based on management's estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the acquisition and certain other adjustments. Accordingly, the actual financial position and results of operations may differ from these pro forma amounts as additional information becomes available and as additional analyses are performed. There can be no assurance that the final valuations will not result in material changes to the preliminary estimated purchase price allocation.

The pro forma adjustments included in this proxy statement/prospectus are subject to change depending on changes in interest rates and the components of assets and liabilities and as additional information becomes available and additional analyses are performed. The final allocation of the purchase price will be determined after the Merger is completed and after completion of thorough analyses to determine the fair value of PMC Commercial's tangible and identifiable intangible assets and liabilities as of the date the Merger is completed. Increases or decreases in the fair values of the net assets as compared with the information shown in the Pro Forma Financial Statements may change the amount of the purchase price allocated to goodwill, if any, and other assets and liabilities and may impact CIM Urban's statements of operations due to adjustments in yield and/or amortization of the adjusted assets or liabilities. Any changes to PMC Commercial's beneficiaries' equity, including results of operations from June 30, 2013 through the date the Merger is completed, will also change the purchase price allocation, which may include the recording of a lower or higher amount of goodwill and/or bargain purchase gain. The final adjustments may be materially different from the Pro Forma Financial Statements presented in this proxy statement/prospectus.

The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the effects of expected cost savings or expected increases in costs, or opportunities to earn additional revenue and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical benefits of the combined company would have been had the two companies been combined during these periods.

**The unaudited pro forma beneficiaries' equity and net income from continuing operations are qualified by the statements set forth under this caption and should not be considered indicative of the market value of PMC Commercial Common Shares or the actual or future results of operations of PMC Commercial for any period. Actual results may be materially different than the pro forma information presented.**

**Table of Contents****CIM Urban Partners****Unaudited Pro Forma Condensed Combined Balance Sheet**

as of June 30, 2013

(In Thousands)

	Historical CIM Urban	Historical PMC Commercial (A)	Pro Forma Adjustments	Pro Forma Combined
<b>Assets:</b>				
Investments in real estate	\$ 1,656,623	\$	\$	\$ 1,656,623
Loans receivable	40,100	235,116	(28,398)(B)	246,818
Deferred rent receivable and charges	77,434			77,434
Cash and cash equivalents	33,351	6,127	(5,500)(C) 58,279(D)	92,257
Goodwill			8,128(E)	8,128
Other intangible assets, net	19,746		2,000(F)	21,746
Other assets	27,534	7,431	(1,374)(G)	33,591
<b>Total assets</b>	<b>\$ 1,854,788</b>	<b>\$ 248,674</b>	<b>\$ 33,135</b>	<b>\$ 2,136,597</b>
<b>Liabilities and Equity:</b>				
<b>Liabilities:</b>				
Debt	\$ 366,964	\$ 101,805	\$ 58,279(D) (2,138)(H)	\$ 524,910
Accounts payable and accrued expenses	16,283	2,998		19,281
Intangible liabilities, net	10,267			10,267
Due to related parties	6,245			6,245
Dividends payable		1,347	58,279(D)	59,626
Security deposits, deferred revenues, advances and other liabilities	19,479	3,712	1,546(I)	24,737
<b>Total liabilities</b>	<b>419,238</b>	<b>109,862</b>	<b>115,966</b>	<b>645,066</b>
<b>Equity:</b>				
Partners equity	1,432,793		(1,432,793)(J)	
Common stock		111	220(J)	331
Preferred stock			650(J)	650
Additional paid-in-capital		153,105	1,431,923(J) (95,334)(J)	1,489,694
Treasury stock		(4,901)		(4,901)
Retained earnings and net unrealized appreciation		(10,403)	10,403(J)	
	1,432,793	137,912	(84,931)	1,485,774
Noncontrolling interests	2,757	900	2,100(K)	5,757
	1,435,550	138,812	(82,831)	1,491,531
<b>Total liabilities and equity</b>	<b>\$ 1,854,788</b>	<b>\$ 248,674</b>	<b>\$ 33,135</b>	<b>\$ 2,136,597</b>

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed combined financial information.





**Table of Contents****Unaudited Pro Forma Condensed Combined Statement of Operations****For the Six Months Ended June 30, 2013***(in Thousands, except per share amounts)*

	Historical CIM Urban	Historical PMC Commercial (A)	Pro Forma Adjustments	Pro Forma Combined
<b>Revenue:</b>				
Rent	\$ 91,003	\$	\$	\$ 91,003
Expense reimbursements	5,047			5,047
Hotel	20,132			20,132
Interest and fees	324	8,469	1,420(L)	10,213
Other income	1,640	530		2,170
	118,146	8,999	1,420	128,565
<b>Expenses:</b>				
Rental operating	36,472			36,472
Hotel operating	13,481			13,481
Asset management fees	10,840		500(M)	11,340
Interest	9,402	1,708	650(N)	11,760
Provision for loan losses		414		414
General and administrative	1,257	3,456		4,713
Transaction costs	1,394	393	(1,787)(C)	
Depreciation and amortization	34,670		200(F)	34,870
	107,516	5,971	(437)	113,050
<b>Income before income tax and noncontrolling interests</b>	10,630	3,028	1,857	15,515
Provision for income taxes		(590)	77(O)	(513)
Noncontrolling interests	(109)			(109)
<b>Income from continuing operations</b>	\$ 10,521	\$ 2,438	\$ 1,934	\$ 14,893
<b>Income from continuing operations per share:</b>				
Basic		\$ 0.23		\$ 0.03(P)
Diluted		\$ 0.23		\$ 0.03
<b>Weighted average common shares outstanding:</b>				
Basic		10,594		487,794(P)
Diluted		10,594		487,794

*The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed combined financial information.*

**Table of Contents****Unaudited Pro Forma Condensed Combined Statement of Operations****For the Year Ended December 31, 2012***(In Thousands, except per share amounts)*

	Historical CIM Urban	Historical PMC Commercial (A)	Pro Forma Adjustments	Pro Forma Combined
<b>Revenue:</b>				
Rent	\$ 181,042	\$	\$	\$ 181,042
Expense reimbursements	9,194			9,194
Hotel	36,858			36,858
Interest and fees	3,890	15,785	2,840(L)	22,515
Other income	1,529	1,280		2,809
	232,513	17,065	2,840	252,418
<b>Expenses:</b>				
Rental operating	74,006			74,006
Hotel operating	25,582			25,582
Asset management fees	20,924		1,000(M)	21,924
Interest	18,856	3,538	1,323(N)	23,717
Provision for loan losses		1,934		1,934
Acquisition related costs and strategic alternatives	632	3,870		4,502
Severance and related benefits		2,114		2,114
General and administrative	2,773	6,400		9,173
Depreciation and amortization	69,943		400(F)	70,343
	212,716	17,856	2,723	233,295
<b>Income (loss) before income tax and noncontrolling interests</b>				
	19,797	(791)	117	19,123
Provision for income taxes		(565)	155(O)	(410)
Noncontrolling interests	(208)			(208)
<b>Income (loss) from continuing operations</b>	\$ 19,589	\$ (1,356)	\$ 272	\$ 18,505
<b>Income (loss) from continuing operations per share:</b>				
Basic		\$ (0.13)		\$ 0.04(P)
Diluted		\$ (0.13)		\$ 0.04
<b>Weighted average common shares outstanding:</b>				
Basic		10,585		487,785(P)
Diluted		10,585		487,785

*The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed combined financial information.*



---

**Table of Contents**

**Notes to Unaudited Pro Forma Condensed Combined Financial Statements**

*(In Thousands, except share and per share data)*

**Note 1: Description of the Merger**

The Merger Agreement provides for the business combination of CIM Urban and PMC Commercial. Pursuant to the terms of the Merger Agreement, PMC Commercial will issue to the CIM Parties, in the aggregate, 22,000,003 PMC Commercial Common Shares and 65,028,571 PMC Commercial Preferred Shares in connection with the Merger. Each PMC Commercial Preferred Share is entitled to a cumulative dividend at the rate of 2.0% of \$35.00 per year, which is subject to increase to 3.5% under certain conditions, and is convertible into seven PMC Commercial Common Shares. In addition, pursuant to the declaration of the Board of Trust Managers, each holder of record of PMC Commercial Common Shares on the last day of business prior to the consummation of the Merger will be entitled to receive the Special Dividend of \$5.50 per share, payable on or prior to the tenth business day after the consummation of the Merger. For purposes of the Pro Forma Financial Statements only, the total consideration to the holders of PMC Commercial Common Shares, based on the combined value of the Special Dividend (in the amount of \$5.50 per share) and the value of the equity of the pro forma combined entity, is \$10.50 per share. This amount of total consideration is not necessarily indicative of the actual consideration that holders of PMC Commercial Common Shares will receive in the Merger.

**Note 2: Basis of Presentation**

The foregoing unaudited pro forma financial information is based on the historical consolidated financial statements of CIM Urban and PMC Commercial after giving effect to the Merger and the assumptions and adjustments described in these notes to the unaudited Pro Forma Financial Statements.

The historical financial statements are presented under GAAP and, as such, the historical statements of income have been adjusted to remove the impact of any asset sales that qualify for discontinued operations treatment. The historical statements of operations present results through income from continuing operations.

The unaudited pro forma balance sheet as of June 30, 2013 is presented as if the Merger had occurred on June 30, 2013. The unaudited pro forma statements of operations for the six months ended June 30, 2013 and the year ended December 31, 2012 are presented as if the Merger had taken place on January 1, 2012.

CIM Urban is considered to be the acquirer for accounting purposes because it will obtain effective control of PMC Commercial. The Merger will constitute the acquisition of a business for purposes of ASC 805. As a result, PMC Commercial's assets and liabilities will be recorded at their fair values. The allocation of the purchase price used in the unaudited Pro Forma Financial Statements is based upon a preliminary valuation. Goodwill will be recognized as of the acquisition date in the amount equal to the excess of the purchase price (consideration) over the fair value of the identifiable net assets acquired. Based on CIM Urban's preliminary purchase price allocation, goodwill of \$8,128 is currently estimated to be recorded in the period the Merger is completed. Estimates and assumptions are subject to change upon finalization of these preliminary valuations.

The unaudited Pro Forma Financial Statements are not intended to represent or be indicative of the consolidated results of operations or financial position that would have been reported had the Merger been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of the combined company. The Pro Forma Financial Statements are based upon available information and certain assumptions that the managements of CIM Urban and PMC Commercial believe are reasonable.

The unaudited Pro Forma Financial Statements do not reflect any revenue enhancements, operating efficiencies, or cost savings that may be achieved. The allocation of the purchase price to the assets and liabilities acquired reflected in this pro forma financial data is preliminary. Accordingly, the actual financial position and results of operations may differ from these pro forma amounts.

**Table of Contents****Note 3: Preliminary Purchase Accounting Allocation**

The total purchase price is based on the estimated PMC Commercial Common Share closing price of \$10.50 per share on the acquisition date and is comprised of the following:

Payment in cash Special Dividend	\$ 58,279
Residual value of share consideration	52,981
<b>Total Purchase Price</b>	<b>\$ 111,260</b>
Net book value of net assets at June 30, 2013	\$ 137,912
Less transaction costs to be incurred by acquiree	(5,500)
<b>Net tangible book value of net assets acquired</b>	<b>132,412</b>
Fair value adjustments to net book value of net assets:	
Loans receivable	(28,398)
Debt	2,138
Noncontrolling interests	(2,100)
Deferred financing costs	(1,374)
Record identifiable intangible	2,000
Deferred tax liability	(1,546)
<b>Total fair value adjustments</b>	<b>(29,280)</b>
<b>Fair value of net assets acquired</b>	<b>\$ 103,132</b>
<b>Computation of Goodwill:</b>	
Total Purchase Price	\$ 111,260
Fair value of net assets acquired	103,132
<b>Goodwill</b>	<b>\$ 8,128</b>

For pro forma purposes, the fair value of the PMC Commercial Common Shares used in determining the purchase price was \$10.50 per share. The final purchase consideration could significantly differ from the amounts presented in the unaudited pro forma condensed financial information due to movement in the price of PMC Commercial Common Shares as of the closing of the Merger. The managements of CIM Urban and PMC Commercial believe that \$10.50 per share is the most appropriate price to use for purposes of these Pro Forma Financial Statements because the financial information of CIM Urban has not in the past been publicly available and accordingly the market price of PMC Commercial Common Shares may not have fully adjusted to consider the historical financial and other information of CIM Urban. Had the closing price of PMC Commercial Common Shares on August 28, 2013 of \$9.12 been utilized, the purchase price would be reduced by \$14,623, resulting in a bargain purchase gain of \$6,495. A hypothetical change of 10% of the closing price of PMC Commercial Common Shares from \$10.50 per share would result in an \$11.1 million change in estimated purchase price and goodwill / bargain purchase gain.

**Note 4: Reclassifications and Pro Forma Adjustments**

- (A) Certain reclassifications have been made to the historical balances of PMC Commercial to conform to the financial presentation of CIM Urban. PMC Commercial's premium income of \$1,543 for the six months ended June 30, 2013, and \$1,889 for the year ended December 31, 2012, has been reclassified to interest and fees, and salaries and related benefits expense of \$2,117 for the six months ended June 30, 2013, and \$4,273 for the year ended December 31, 2012, has been reclassified to general and administrative expense.

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

- (B) The fair value of the loan portfolio acquired from PMC Commercial is estimated by CIM Urban to be less than book value. Based on management's judgment, CIM Urban applied an approximate discount of \$28,398 to PMC Commercial's gross loan portfolio to estimate the fair value adjustment as of June 30, 2013. The adjustment reflects CIM Urban's estimates of the market interest rate differential on pools of

**Table of Contents**

loans. In addition, the estimated value of the loan portfolio reflects discounting to the anticipated cash flow from these loans receivable to reflect the value that would be attained on a sale of certain portions of the portfolio assuming they are not held to maturity. There can be no assurance that any portion of the loan portfolio will be sold prior to maturity or whether the adjusted value based on the pro forma discount will be achieved. The final value will be determined after the Merger is completed and after completion of a thorough analysis of the portfolio. The loan fair value adjustment will be amortized over the estimated remaining life of the loan portfolio. As adjusted, PMC Commercial's loans receivable estimated fair market value was \$206,718 as of June 30, 2013.

- (C) The estimated transaction costs related to the Merger to be incurred by the acquiree are approximately \$5,500. This cost is included in the Pro Forma Condensed Combined Balance Sheet, but is not included in the Pro Forma Condensed Combined Statements of Operations. For purposes of the pro forma presentation, these costs are assumed to be paid out in cash by CIM Urban at June 30, 2013. However, several of these costs may not actually be paid out in cash and would be accrued for or paid by CIM Urban.

These costs consist of advisory fees of approximately \$3,700, and legal, accounting, printing, proxy solicitation and other fees of approximately \$1,800.

In addition, costs of \$393 incurred by PMC Commercial and \$1,394 incurred by CIM Urban during the six months ended June 30, 2013 that specifically related to the Merger have been eliminated.

The plan to integrate the operations of PMC Commercial and CIM Urban following the Merger is still being developed. The specific details of the plan will continue to be refined throughout the period prior to closing and will include assessments of employee benefit plans and contracts to determine the extent of any redundancies that may be eliminated. Certain decisions arising from these assessments may involve changing information systems and canceling contracts with service providers. Costs associated with these actions will be recorded based on the nature of the cost and timing of the integration actions.

- (D) To reflect the increase in cash for payment of the Special Dividend of \$58,279 as provided for in the Merger Agreement. Proceeds for the Special Dividend are anticipated through new borrowings on CIM Urban's credit facility, and are reflected as dividends payable as of June 30, 2013.

- (E) Represents the purchase price in excess of the fair value of net assets acquired.

- (F) To record an identifiable intangible asset of PMC Commercial. Adjustments to other intangible assets include an intangible of approximately \$2,000 relating to the value of PMC Commercial's licenses to operate under programs of the SBA. The amortization of the value of the SBA license intangible is estimated at approximately \$400 for the year ended December 31, 2012, and \$200 for the six months ended June 30, 2013 based on an estimated life of five years. Additional intangible assets may be identified and recorded upon completion of the detailed purchase price allocation.

- (G) To write-off deferred financing costs of PMC Commercial totaling \$1,374 as of the date of the Merger.

- (H) The fair value of the debt acquired from PMC Commercial is estimated by CIM Urban to be less than book value. Based on management's judgment, CIM Urban applied a discount of \$2,138 to PMC Commercial's debt to estimate the fair value adjustment as of June 30, 2013. As adjusted estimated fair value of PMC Commercial's debt was \$99,667 as of June 30, 2013.

- (I) To reflect the deferred tax liability associated with the net increase in value of the loan portfolio of PMC Commercial's taxable REIT subsidiaries. The estimated fair value increase was approximately \$4,546 at June 30, 2013.

- (J)

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

Reflects the acquisition method of accounting based on the estimated fair value of the assets and liabilities of PMC Commercial as summarized below and the elimination of PMC Commercial's retained earnings and net unrealized appreciation accounts since PMC Commercial is not considered to be the accounting acquirer.



**Table of Contents**

The adjustment reflects the reclassification of CIM Urban's partners equity to additional paid-in-capital and to reflect the issuance of 22,000,003 shares of \$0.01 par value common stock and the issuance of 65,028,571 shares of \$0.01 par value preferred stock.

In addition to the reclassification described above, the equity of PMC Commercial has been adjusted as follows:

Adjustments:	
Additional Paid-in-Capital	\$ (95,334)
Retained Earnings	10,403
	\$ (84,931)
Detail:	
Special Dividend (Note 4D)	\$ (58,279)
Net fair value adjustments (Note 3)	(21,152)
Transaction costs to be incurred (Note 4C)	(5,500)
	\$ (84,931)

- (K) To adjust PMC Commercial's noncontrolling interests, representing cumulative preferred stock of a subsidiary, to estimated fair market value of \$3,000 as of the date of the Merger. It is anticipated that the cumulative preferred stock will be retired shortly after the Merger is consummated.
- (L) To record the portion of the fair value adjustment to PMC Commercial's loans receivable classified as accretable yield that will be amortized over the estimated remaining life of the loan portfolio of ten years.
- (M) To reflect the base services fee of \$1,000 annually to be paid to the Manager pursuant to the Master Services Agreement.
- (N) To record the estimated increase in interest expense related to the Merger, including (a) incremental interest expense associated with assumed borrowings to fund the Special Dividend of \$583 and \$1,166 during the six months ended June 30, 2013 and the year ended December 31, 2012, respectively, (b) the amortization of debt discount associated with the fair value adjustment to PMC Commercial's outstanding debt balance at the assumed date of the Merger of \$107 and \$214 during the six months ended June 30, 2013 and the year ended December 31, 2012, respectively, and (c) the elimination of the amortization of deferred financing charges of \$40 and \$57 recorded by PMC Commercial during the six months ended June 30, 2013 and the year ended December 31, 2012, respectively. The estimated increase in interest expense related to the Merger is computed at an assumed floating interest rate of 2.00% for both the year ended December 31, 2012 and the six months ended June 30, 2013. Each 12.5 basis point change in the assumed interest rate would result in a change in interest expense of approximately \$73 for the year ended December 31, 2012 and \$36 for the six months ended June 30, 2013.
- (O) Adjustments to income tax expense represent the tax effect of the pro forma adjustments relating to PMC Commercial's taxable REIT subsidiaries using a statutory rate of 34%.
- (P) For purposes of calculating basic earnings per share, the 65,028,571 PMC Commercial Preferred Shares to be issued in connection with the Merger have been assumed to have been converted into 455,199,997 PMC Commercial Common Shares, as the CIM Parties have agreed to vote their 97.8% post-Merger beneficial ownership of PMC Commercial Common Shares in favor of an increase in the number of authorized PMC Commercial Common Shares to one billion, thereby satisfying the condition for the automatic conversion of these

shares.

**Table of Contents****COMPARATIVE SHARE INFORMATION****Consolidated Per Share Information**

The following table sets forth selected historical equity ownership information for PMC Commercial and CIM Urban and unaudited pro forma combined per share ownership information after giving effect to the Merger. This information is being provided to aid you in your analysis of the financial aspects of the Merger. The historical information should be read in conjunction with Selected Historical Consolidated Financial Data of CIM Urban, and Selected Historical Consolidated Financial Data of PMC Commercial included elsewhere in this proxy statement/prospectus and the historical consolidated and combined financial statements of PMC Commercial and CIM Urban and the related notes thereto included elsewhere in this proxy statement/prospectus. The unaudited pro forma combined per share information is derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial information and related notes included elsewhere in this proxy statement/prospectus.

CIM REIT is considered to be the acquirer for accounting purposes because it will obtain effective control of PMC Commercial. The Merger will constitute the acquisition of a business for purposes of ASC 805. As a result, PMC Commercial's assets and liabilities will be recorded at their fair values. The allocation of the purchase price used in the unaudited Pro Forma Financial Statements is based upon a preliminary valuation. Estimates and assumptions are subject to change upon finalization of these preliminary valuations.

The unaudited pro forma combined per share information does not purport to represent what the actual results of operations of PMC Commercial and CIM Urban would have been had the Merger been completed on the dates indicated or to project PMC Commercial's or CIM Urban's results of operations that may be achieved after the completion of the Merger. The unaudited pro forma book value per share information below does not purport to represent what the value of PMC Commercial and CIM Urban would have been had the Merger been completed on the dates indicated or the book value per share for any future date or period.

	Historical PMC Commercial(1)	Historical CIM Urban(2)	Unaudited Pro Forma Combined
<b>Year Ended December 31, 2012</b>			
Basic and diluted earnings (loss) per share (4)	\$ (0.13)	\$ 0.04	\$ 0.04
Book value per share at December 31, 2012	\$ 13.15	\$ 3.07	
Dividends declared per share	\$ 0.60	\$ 0.16(3)	\$ 0.17(5)
<b>Six Months Ended June 30, 2013</b>			
Basic and diluted earnings per share (4)	\$ 0.23	\$ 0.02	\$ 0.03
Book value per share at June 30, 2013	\$ 13.10	\$ 3.01	\$ 3.06(6)
Dividends declared per share	\$ 0.25	\$ 0.09(3)	\$ 0.09(5)

- (1) *These per share amounts have been calculated based on the weighted average shares outstanding which includes all issued and outstanding PMC Commercial Common Shares.*
- (2) *CIM Urban is currently organized as a limited partnership. Accordingly, these per share amounts have been calculated assuming the conversion of all PMC Commercial Preferred Shares issued in the Merger, which together with the 22,000,003 PMC Commercial Common Shares issued directly to the CIM Parties in the Merger, yields an aggregate of 477,200,000 PMC Commercial Common Shares used in the calculations.*
- (3) *Represents dividends declared by CIM REIT, which are funded by distributions from CIM Urban.*
- (4) *Based upon income (loss) from continuing operations.*
- (5) *No change in dividend policy is expected pursuant to the proposed Merger. Share information includes the 477,200,000 PMC Commercial Common Shares as discussed above in (2) and the weighted average of 10,585,000 and 10,594,000 PMC Commercial Common Shares during the year ended December 31, 2012 and the six months ended June 30, 2013, respectively.*
- (6) *Share information used in the calculation includes the 477,200,000 PMC Commercial Common Shares as discussed above in (2) and 10,596,000 PMC Commercial Common Shares outstanding as of June 30, 2013.*

**Table of Contents****Selected Comparative Historical Information***(In thousands)*

	PMC Commercial	CIM Urban
<b>Year Ended December 31, 2012</b>		
Earnings (loss) (1)	\$ (1,356)	\$ 19,589
Book value at December 31, 2012	\$ 139,226	\$ 1,466,073
Dividends declared	\$ 6,353	\$ 76,000
<b>Six Months Ended June 30, 2013 (unaudited)</b>		
Earnings (1)	\$ 2,438	\$ 10,521
Book value at June 30, 2013	\$ 138,812	\$ 1,435,550
Dividends declared	\$ 2,650	\$ 42,000

*(1) Represents income (loss) from continuing operations***Comparative PMC Commercial and CIM Urban Market Price and Dividend Information*****PMC Commercial's Market Price and Dividend Data***

PMC Commercial Common Shares are traded on the NYSE MKT under the symbol PCC. The following table sets forth, for the periods indicated, the high and low sales prices as reported on the NYSE MKT (previously NYSE Amex) and the regular dividends per share declared by PMC Commercial for each such period.

Quarter Ended	High	Low	Regular Dividends Per Share
July 1, 2013 to August 28, 2013	\$ 10.24	\$ 8.30	
June 30, 2013	\$ 8.54	\$ 7.28	\$ 0.125
March 31, 2013	\$ 7.60	\$ 6.71	\$ 0.125
December 31, 2012	\$ 7.76	\$ 6.06	\$ 0.120
September 30, 2012	\$ 8.25	\$ 7.35	\$ 0.160
June 30, 2012	\$ 8.76	\$ 7.50	\$ 0.160
March 31, 2012	\$ 9.00	\$ 6.95	\$ 0.160
December 31, 2011	\$ 8.00	\$ 6.84	\$ 0.160
September 30, 2011	\$ 8.56	\$ 7.50	\$ 0.160
June 30, 2011	\$ 8.97	\$ 8.19	\$ 0.160
March 31, 2011	\$ 9.45	\$ 8.25	\$ 0.160

As of August 21, 2013, there were approximately 670 holders of record of PMC Commercial Common Shares, excluding shareholders whose shares were held by brokerage firms, depositories and other institutional firms in street name for their customers.

***CIM Urban's Market Price and Dividend Data***

There is no established public trading market for the equity interests of CIM Urban. At the close of business on June 30, 2013, CIM REIT was the sole holder of record of equity interests of CIM Urban. The following table

**Table of Contents**

sets forth, for the periods indicated, the dividends declared by CIM Urban per PMC Commercial Common Share which the CIM Parties would have received after giving effect to the Merger.

Quarter Ended	CIM Urban Dividends Declared per PMC Commercial Common Share to be received(1)		CIM Urban Dividends Declared (In thousands)	
June 30, 2013	\$	0.044	\$	21,000
March 31, 2013	\$	0.044	\$	21,000
December 31, 2012	\$	0.042	\$	20,000
September 30, 2012	\$	0.042	\$	20,000
June 30, 2012	\$	0.040	\$	19,000
March 31, 2012	\$	0.036	\$	17,000
December 31, 2011	\$	0.036	\$	17,000
September 30, 2011	\$	0.036	\$	17,000
June 30, 2011	\$	0.036	\$	17,000
March 31, 2011	\$	0.036	\$	17,000

- (1) Assuming the conversion of all PMC Commercial Preferred Shares issued in the Merger, which together with the 22,000,003 PMC Commercial Common Shares issued to the CIM Parties in the Merger yields an aggregate of 477,200,000 PMC Commercial Common Shares used in the calculations.

**Recent Closing Prices**

The following table sets forth the closing per share sales prices of PMC Commercial Common Shares as reported on the NYSE MKT on August 28, 2013, the latest practicable trading day before the date of this proxy statement/prospectus, and on July 5, 2013, the last full trading day before the public announcement of the execution of the Merger Agreement by PMC Commercial:

	PMC Commercial Common Shares
August 28, 2013	\$ 9.12
July 5, 2013	\$ 8.44

Following the effective time of the Merger, the PMC Commercial Common Shares are expected to be listed on a national securities exchange to be determined prior to the effective time.

**Table of Contents**

**RATIO OF EARNINGS TO COMBINED FIXED CHARGES  
AND PREFERRED DIVIDENDS**

The following table sets forth our ratio of earnings to combined fixed charges and preferred dividends for the periods shown. These ratios should be considered in connection with PMC Commercial's financial statements and the related notes incorporated by reference in this proxy statement/prospectus.

	Years Ended December 31,					
	Six Months Ended June 30, 2013	2012(1)	2011	2010	2009	2008
Ratio of earnings to combined fixed charges and preferred dividends	2.71x	N/A	2.25x	2.13x	2.96x	3.27x

(1) *The ratio of earnings to fixed charges for the year ended December 31, 2012 was not sufficient to cover fixed charges. Additional earnings of \$837,000 would be needed to have a one-to-one ratio of earnings to fixed charges.*

The ratios were computed by dividing earnings by the sum of fixed charges and preferred stock dividends. Earnings consists of income (loss) from continuing operations before income taxes, interest expense, and that portion of rental expense deemed to be the equivalent of interest (estimated by management as one-third of operating lease costs). Fixed charges consist of interest expense, that portion of rental expense deemed to be the equivalent of interest (estimated by management as one-third of operating lease costs) and preferred stock dividends which consists of the amount of pre-tax earnings that are required to pay the dividends of the preferred stock of our consolidated subsidiary, less preferred stock dividends included in interest expense.

**Table of Contents**

**RISK FACTORS**

*In addition to the other information contained in or incorporated by reference in this proxy statement/prospectus, you should carefully consider the following risk factors in deciding whether to vote or instruct your vote to be cast to approve the proposals described in this proxy statement/prospectus.*

**Risks Related to the Merger**

***PMC Commercial's shareholders will experience significant immediate dilution in percentage ownership and effective voting power as a consequence of the issuance of the PMC Commercial Common Shares and PMC Commercial Preferred Shares to the CIM Parties as consideration in the Merger.***

The Merger will significantly dilute the ownership position and effective voting power of the current PMC Commercial shareholders. Following the issuance of the PMC Commercial Common Shares and PMC Commercial Preferred Shares to the CIM Parties pursuant to the Merger Agreement (and assuming conversion of the PMC Commercial Preferred Shares), the current PMC Commercial shareholders will hold approximately 2.2% of the PMC Commercial Common Shares issued and outstanding immediately after consummation of the Merger.

***PMC Commercial's shareholders cannot be certain of the market value of the PMC Commercial Common Shares and PMC Commercial Preferred Shares that will be issued to the CIM Parties if the Merger is completed.***

In connection with the closing of the Merger, PMC Commercial will issue 22,000,003 PMC Commercial Common Shares and 65,028,571 PMC Commercial Preferred Shares to the CIM Parties. Because the number of shares to be issued in connection with the Merger is fixed, the market value of the PMC Commercial shares issued in connection with the Merger will depend upon the market price of a PMC Commercial Common Share upon completion of the Merger. The market value of PMC Commercial Common Shares will fluctuate prior to completion of the Merger and therefore may be different at the time the Merger is consummated than it was at the time the Merger Agreement was negotiated, signed and at the time of the special meeting. Share price changes may result from a variety of factors that are beyond PMC Commercial's control, including general market and economic conditions and changes in business prospects. Accordingly, PMC Commercial shareholders cannot be certain of the market value of the PMC Commercial shares that will be issued to the CIM Parties in connection with the Merger or the market value of PMC Commercial Common Shares at any time after the Merger.

***The market price of the PMC Commercial Common Shares may decline as a result of the Merger.***

The market price of the PMC Commercial Common Shares may decline as a result of the Merger if PMC Commercial does not achieve the perceived benefits of the Merger as rapidly as or to the extent anticipated by its shareholders or financial or industry analysts, or the effect of the Merger on PMC Commercial's financial results is not consistent with the expectations of its shareholders or financial or industry analysts.

In addition, following the Merger, PMC Commercial shareholders will own interests in a company with an expanded business with a different mix of assets, risks and liabilities. Existing PMC Commercial shareholders may not wish to continue to invest in PMC Commercial post-Merger, or for other reasons may wish to dispose of some or all of their PMC Commercial Common Shares. If, following the Merger, large amounts of PMC Commercial Common Shares are sold, the price of PMC Commercial Common Shares could decline substantially.

***The Merger may not be completed, which could adversely affect PMC Commercial's business.***

Completion of the Merger is subject to the satisfaction of various conditions, including approval of the Share Issuance Proposal by PMC Commercial shareholders and the other conditions described in the Merger

---

**Table of Contents**

Agreement. Neither PMC Commercial nor CIM REIT can guarantee when or if these conditions will be satisfied or that the Merger will be successfully completed. In the event that the Merger is not completed, PMC Commercial may be subject to several risks, including the following:

PMC Commercial management's and employees' attention from day-to-day business may be diverted.

PMC Commercial would still be required to pay significant transaction costs related to the Merger, including legal, accounting, financial adviser, filing, printing and mailing expenses, and under certain circumstances would be required to pay a termination fee of \$4,000,000 and reimburse CIM REIT's out-of-pocket transaction expenses up to \$700,000 (exclusive of expenses incurred by PMC Commercial prior to the execution of the Merger Agreement and reimbursed by CIM REIT or its affiliates). See THE MERGER AGREEMENT Termination Fees and Expenses beginning on page 99.

To the extent the costs incurred by PMC Commercial were to cause it to be unable to comply with the covenants under its revolving credit facility, an event of default would occur. The existence of an event of default could restrict PMC Commercial from borrowing under the revolving credit facility and from paying dividends to its shareholders. The occurrence of an event of default would also permit the lender to accelerate repayment of all amounts due and to terminate its commitment to lend thereunder.

If the Merger is not completed, these risks could materially affect the business and financial results of PMC Commercial and the market price of PMC Commercial Common Shares.

***The Merger is subject to the receipt of consents and approvals from government entities and third parties that could delay completion of the Merger or impose conditions that could have a material adverse effect on PMC Commercial or CIM Urban or cause abandonment of the Merger, which may adversely affect the value of PMC Commercial Common Shares.***

Completion of the Merger is conditioned upon the consent of the SBA. A substantial delay in obtaining consent from the SBA or the imposition of unfavorable terms and conditions by the SBA could have an adverse effect on the business, financial condition or results of operations of PMC Commercial, or may cause the abandonment of the Merger.

Completion of the Merger is also subject to approval by certain third parties. A substantial delay in obtaining such approvals, the failure to obtain such approvals or the imposition of unfavorable terms or conditions could have an adverse effect on the business, financial condition or results of operations of PMC Commercial or CIM Urban, or may cause the abandonment of the Merger.

***The Merger will result in changes to the Board of Trust Managers and initially, a majority of the Trust Managers will be affiliated with the Advisor and will not be independent; and CIM REIT will have effective control over the outcome of all actions requiring the approval of PMC Commercial shareholders, which might adversely affect the market price of the PMC Commercial Common Shares.***

After the closing of the Merger and assuming conversion of the PMC Commercial Preferred Shares, the CIM Parties will beneficially own approximately 97.8% of the outstanding PMC Commercial Common Shares. As a result, PMC Commercial will be a controlled company, which is a company in which over 50% of the voting power is held by an individual, a group or another company. As a controlled company, PMC Commercial will not be required to comply with certain national securities exchange rules requiring a board of directors with a majority of independent directors, a compensation committee composed entirely of independent directors and a nominating committee composed entirely of independent directors. PMC Commercial's other shareholders will not have the same corporate governance protections that they would otherwise have if PMC Commercial were not a controlled company.

The CIM Parties will have the ability to determine the outcome of all corporate actions of PMC Commercial requiring shareholder approval, including the ability to elect or remove all of the Trust Managers. Following the



---

**Table of Contents**

closing of the Merger, the Board of Trust Managers will consist of four Trust Managers who are affiliated with the Advisor and three independent Trust Managers who are recommended for membership on the Board of Trust Managers by the Advisor. Accordingly, PMC Commercial will not have the benefit of a Board of Trust Managers with a majority of independent Trust Managers, and there is a risk that the interests of the CIM Parties and these Trust Managers will not be consistent with the interests of other holders of PMC Commercial Common Shares.

In addition to the effects described above, this concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of the PMC Commercial Common Shares.

***The Merger Agreement may be terminated by either PMC Commercial or CIM REIT if the Merger is not consummated by December 31, 2013.***

Either PMC Commercial or CIM REIT may terminate the Merger Agreement if the Merger has not been consummated by December 31, 2013, whether such date is before or after the approval of PMC Commercial's shareholders is obtained. However, this termination right will not be available to a party if that party failed to fulfill its obligations under the Merger Agreement and that failure was the primary cause of, or the primary factor that resulted in, the failure to consummate the Merger. For more information, see THE MERGER AGREEMENT Termination of the Merger Agreement beginning on page 98.

***After the Merger is completed, the CIM Parties will control the vote required for the conversion of the PMC Commercial Preferred Shares into PMC Commercial Common Shares to occur, which could materially and adversely affect the holders of PMC Commercial Common Shares (and PMC Commercial Preferred Shares) if such conversion is delayed or does not occur at all.***

The Board of Trust Managers has authorized the issuance of the PMC Commercial Preferred Shares, consisting of 65,028,571 Class A Convertible Cumulative Preferred Shares, \$.01 par value per share (liquidation preference \$17.50 per share). The PMC Commercial Preferred Shares will rank senior to the PMC Commercial Common Shares, as to distributions and with respect to distribution rights or payments upon liquidation, dissolution or winding up of PMC Commercial. The holders of the PMC Commercial Preferred Shares will be entitled to receive, when and as authorized by the Board of Trust Managers and declared by PMC Commercial, cumulative distributions at the rate of 2% of \$35.00 per share per year; provided that if the PMC Commercial Preferred Shares are converted on or before the date that is six months from the effective date of the Merger (which date may be extended due to certain force majeure events as provided in the Statement of Designation setting forth the terms of the PMC Commercial Preferred Shares), the distribution amount payable on the PMC Commercial Preferred Shares will be calculated at the rate of 3.5% of \$35.00 per year. Each PMC Commercial Preferred Share will automatically convert into seven PMC Commercial Common Shares on the first business day on which, pursuant to the PMC Commercial Declaration of Trust, there are sufficient authorized but unissued shares to convert all of the PMC Commercial Preferred Shares into PMC Commercial Common Shares.

Pursuant to the Merger Agreement, if the Merger is completed, CIM REIT has agreed to cause PMC Commercial, and PMC Commercial has agreed, to hold another meeting of PMC Commercial shareholders as soon as practicable thereafter to approve, among other things, an increase in the number of authorized PMC Commercial Common Shares to one billion (thereby satisfying the condition for the automatic conversion of the PMC Commercial Preferred Shares issued in connection with the Merger into an aggregate of 455,199,997 PMC Commercial Common Shares). After the Merger is completed, the CIM Parties will hold a sufficient number of shares to control the vote required for the conversion of the PMC Commercial Preferred Shares to occur. In the event that the conversion of the PMC Commercial Preferred Shares into PMC Commercial Common Shares is delayed or does not occur at all, the rights of the holders of PMC Commercial Common Shares (as well as the PMC Commercial Preferred Shares) could be materially and adversely affected. For more information, see THE TERMS OF THE PMC COMMERCIAL PREFERRED SHARES beginning on page 99.

---

**Table of Contents**

***After the Merger is completed, the CIM Parties will have the ability to make the Reincorporation occur, which will cause the holders of PMC Commercial Common Shares to have different rights that may be less advantageous than their current rights.***

After the closing of the Merger, PMC Commercial shareholders may be asked to approve the Reincorporation so that PMC Commercial's corporate governance and the rights of its shareholders will be governed by Maryland law, the Maryland Charter and the Maryland Bylaws, instead of Texas law, PMC Commercial's existing Declaration of Trust and existing bylaws. In the event that the CIM Parties decide to make the Reincorporation occur, the CIM Parties will hold a sufficient number of shares to control the vote required to make the Reincorporation occur. Following any Reincorporation, holders of PMC Commercial Common Shares will have different rights that may be less advantageous than the rights they currently have. You may conclude that your rights as a shareholder of PMC Commercial after the Reincorporation may be less advantageous than the rights you currently have as a shareholder of PMC Commercial. For a detailed discussion of your rights as a shareholder of PMC Commercial after the Reincorporation and the significant differences between your current rights as a shareholder of PMC Commercial and your rights as a shareholder of PMC Commercial after the Reincorporation, see "STRATEGY OF PMC COMMERCIAL AFTER THE MERGER - The Reincorporation" beginning on page 182.

***Uncertainties associated with the Merger may have a negative impact on business relationships.***

The announcement of the Merger may have a negative impact on PMC Commercial business relationships. Moreover, due to operating covenants in the Merger Agreement, PMC Commercial may be unable, during the pendency of the Merger, to pursue certain strategic transactions and otherwise pursue actions that are not in the ordinary course of business even if such actions would prove beneficial. These events could have a material negative impact on PMC Commercial's results of operations and financial condition.

***Some of the Trust Managers and executive officers of PMC Commercial have interests in seeing the Merger completed that are different from, or in addition to, those of the PMC Commercial shareholders.***

Some of the Trust Managers and executive officers of PMC Commercial have arrangements that provide them with interests in the Merger that are different from, or in addition to, those of the shareholders of PMC Commercial. These interests include, among other things, acceleration of equity awards, benefits under employment agreements and continuation of employee benefits and indemnification and insurance arrangements. These interests, among other things, may influence the Trust Managers and executive officers of PMC Commercial to support or approve the Merger. See "THE MERGER - Interests of PMC Commercial Trust Managers and Executive Officers in the Merger" beginning on page 79.

***The Merger Agreement contains provisions that could discourage a potential competing acquirer of PMC Commercial from submitting an alternative Acquisition Proposal or that could result in any competing Acquisition Proposal being at a lower price than it might otherwise be.***

Under the Merger Agreement, PMC Commercial agreed not to, beginning on the date that is 31 days after the date of the Merger Agreement, (i) solicit proposals relating to alternative Acquisition Proposals or (ii) engage or participate in discussions or negotiations with, or provide non-public information to, any person relating to any such alternative Acquisition Proposal, subject to certain limited exceptions where the failure to take certain action would be inconsistent with the legal duties of the Board of Trust Managers under applicable law. See "THE MERGER AGREEMENT - Acquisition Proposals - Go Shop Period" beginning on page 94. Even if a person submitted an alternative Acquisition Proposal, prior to recommending such alternative Acquisition Proposal to its shareholders as a superior proposal and terminating the Merger Agreement, PMC Commercial would be required to negotiate with CIM REIT in good faith for a period of five business days (to the extent CIM REIT desires to negotiate) to revise the terms of the Merger Agreement in response to such alternative Acquisition Proposal. In addition, upon termination of the Merger Agreement in certain circumstances,

## **Table of Contents**

PMC Commercial may be required to pay a termination fee and expense reimbursement as directed by CIM REIT. See THE MERGER AGREEMENT Termination Fees and Expenses beginning on page 99. These provisions could discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of PMC Commercial from considering or submitting an alternative Acquisition Proposal. These provisions could also result in a potential competing acquirer proposing to pay a lower price per share than it might otherwise have proposed to pay because of the incremental expense of the termination fee and expense reimbursement that may become payable by PMC Commercial in certain circumstances.

***An adverse outcome in any lawsuit challenging the Merger may prevent the Merger from becoming effective or from becoming effective within the expected timeframe.***

If any purported PMC Commercial shareholders or CIM REIT investors file lawsuits challenging the Merger, PMC Commercial cannot assure the outcome of these lawsuits, including the costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation or settlement of these claims. If the plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the Merger on the agreed-upon terms, such an injunction may prevent the completion of the Merger in the expected time frame, or may prevent it from being completed altogether. Whether or not the plaintiffs' claims are successful, this type of litigation is often expensive and diverts management's attention and resources, which could adversely affect the operation of PMC Commercial's business.

### **Risks Related to CIM Urban's Business and Properties**

*The following risk factors apply to the business and operations of CIM Urban and also will apply to the consolidated business and operations of PMC Commercial following the completion of the Merger. Any of the risk factors described below could significantly and adversely affect CIM Urban's business, prospects, revenues, gross profit, cash flows, financial condition and results of operations.*

***Capital and credit market conditions may adversely affect demand for CIM Urban's properties and the overall availability and cost of credit.***

In periods when the capital and credit markets experience significant volatility, demand for CIM Urban's properties and the overall availability and cost of credit may be adversely affected. No assurances can be given that the capital and credit market conditions will not have a material adverse effect on CIM Urban's business, financial condition or results of operations.

In addition, CIM Urban's business and results of operations could be adversely affected by significant volatility in the capital and credit markets as follows:

The tenants in CIM Urban's office properties may experience a deterioration in their sales or other revenue, or experience a constraint on the availability of credit necessary to fund operations, which in turn may adversely impact those tenants' ability to pay contractual base rents and tenant recoveries. Some tenants may terminate their occupancy due to an inability to operate profitably for an extended period of time, impacting CIM Urban's ability to maintain occupancy levels.

Constraints on the availability of credit to tenants, necessary to purchase and install improvements, fixtures and equipment and to fund start-up business expenses, could impact CIM Urban's ability to procure new tenants for spaces currently vacant in existing office properties or properties under development.

CIM Urban's joint venture and other co-investment partners could experience difficulty obtaining financing in the future for the same reasons discussed above. Their inability to obtain financing on acceptable terms, or at all, could negatively impact CIM Urban's ability to acquire additional properties.

---

**Table of Contents**

***Current general economic conditions could have an adverse effect on the office, lodging and apartment communities industries.***

The United States continues to be in a post-recessionary slow-growth environment, which has experienced historically high levels of unemployment. Uncertainty over the depth and duration of this economic environment continues to have a negative impact on the office, lodging and apartment communities industries. There is some general consensus among economists that the economy in the United States emerged from a recessionary environment in 2009, but high unemployment levels were evident in 2010, 2011, 2012 and 2013. As a result, CIM Urban and the office, lodging and apartment communities industries may, among other things, experience reductions in revenue resulting from lower rental rates and occupancy levels. Accordingly, CIM Urban's financial results could be impacted by the economic environment, and future financial results and growth could be further harmed until a more expansive national economic environment is prevalent. A weaker than anticipated economic recovery, or a return to a recessionary national economic environment, could result in low or decreased levels of business and consumer travel, negatively impacting the lodging industry. Moreover, in the event of another recession, the office and apartment communities industries could experience reductions in rental rates, occupancy levels, property valuations and increases in operating costs such as advertising and turnover expenses. Such an economic outcome could also negatively impact CIM Urban and its tenants' future growth prospects and could significantly impact their results of operations.

***CIM Urban's operating performance is subject to risks associated with the lodging industry.***

The success of CIM Urban's hotel properties depends largely on the property operators' ability to adapt to dominant trends in the lodging industry as well as disruptions such as greater competitive pressures, increased consolidation, industry overbuilding, dependence on consumer spending patterns and changing demographics, the introduction of new concepts and products, availability of labor, price levels and macroeconomic and microeconomic conditions. The success of a particular hotel brand, the ability of a hotel brand to fulfill any obligations to operators of its business, and trends in the lodging industry may affect CIM Urban's income and cash available for dividends.

The lodging industry could also experience a significant decline in occupancy and average daily rates due to a reduction in business and/or leisure travel. General economic conditions, increased fuel costs, natural disasters and terrorist attacks are a few factors that could affect an individual's willingness to travel.

***A majority of CIM Urban's properties, by aggregate net operating income and square feet, are located in California and the District of Columbia. CIM Urban is dependent on the California and the District of Columbia office and hotel markets and economies, and is therefore susceptible to risks of events in those markets that could adversely affect CIM Urban's business, such as adverse market conditions, changes in local laws or regulations and natural disasters.***

Because CIM Urban's properties in California (and particularly, in Oakland, California) and the District of Columbia represent a significant portion of CIM Urban's portfolio by aggregate net operating income and square feet, CIM Urban is exposed to greater economic risks than if it owned a more geographically dispersed portfolio. CIM Urban is susceptible to adverse developments in the California (and particularly, in Oakland) and the District of Columbia economic and regulatory environments (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors) as well as natural disasters that occur in these areas (such as earthquakes, floods and other events). In addition, the State of California is also regarded as more litigious and more highly regulated and taxed than many states, which may reduce demand for office and hotel space in California. Any adverse developments in the economy or real estate markets in California (and particularly, in Oakland) or the District of Columbia, or any decrease in demand for office or hotel space resulting from the California (and particularly, in Oakland) or the District of Columbia regulatory or business environments, could adversely impact CIM Urban's financial condition, results of operations and cash flow.

**Table of Contents**

***Investments in office buildings that have government tenants are subject to the risks associated with conducting business with the U.S. federal government.***

Investments in office buildings that have government tenants are subject to risks associated with conducting business with the U.S. federal government. Congressional action to reduce budgetary spending by the United States could limit the funding of government agencies or other organizations. The risks of conducting business with the U.S. federal government also include the risk of civil and criminal fines and the risk of public scrutiny of CIM Urban's performance at high profile sites.

***CIM Urban's operating performance is subject to risks associated with the real estate industry.***

Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond the control of CIM Urban. Certain events may decrease cash available for dividends, as well as the value of CIM Urban's properties. These events include, but are not limited to:

adverse changes in economic and socioeconomic conditions;

vacancies or CIM Urban's inability to rent space on favorable terms;

adverse changes in financial conditions of buyers, sellers and tenants of properties;

inability to collect rent from tenants;

competition from other real estate investors with significant capital, including other real estate operating companies, publicly-traded REITs and institutional investment funds;

reductions in the level of demand for office, hotel and apartment community space and changes in the relative popularity of properties;

increases in the supply of office, hotel and apartment community space;

fluctuations in interest rates, which could adversely affect CIM Urban's ability, or the ability of buyers and tenants of properties, to obtain financing on favorable terms or at all;

dependence on third parties to provide leasing, brokerage, property management and other services with respect to CIM Urban's investments;

increases in expenses, including insurance costs, labor costs, utility prices, real estate assessments and other taxes and costs of compliance with laws, regulations and governmental policies, and CIM Urban's inability to pass on some or all of these increases to CIM Urban's tenants; and

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

changes in, and changes in enforcement of, laws, regulations and governmental policies, including, without limitation, health, safety, environmental, zoning and tax laws, governmental fiscal policies and the Americans with Disabilities Act (ADA) of 1990.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases. If CIM Urban cannot operate its properties so as to meet its financial expectations, CIM Urban's financial condition, results of operations, cash flow and ability to satisfy its debt service obligations and to pay dividends could be adversely affected. There can be no assurance that CIM Urban can achieve its economic objectives.

***Tenant concentration increases the risk that cash flow could be interrupted.***

CIM Urban is, and expects that it will continue to be, subject to a degree of tenant concentration at certain of its properties. In the event that a tenant occupying a significant portion of one or more of CIM Urban's properties or whose rental income represents a significant portion of the rental revenue at such property or properties were to experience financial weakness or file bankruptcy, it would more negatively impact CIM Urban's financial condition and results of operations than if the tenant did not occupy multiple properties or occupied a smaller portion of a single property.

## **Table of Contents**

CIM Urban has a concentration of government tenants across its portfolio. The reduction of government funding for such government agencies and other organizations and changes in regulations governing such agencies and organizations could have a material adverse effect on CIM Urban's investments in office buildings with government tenants.

*CIM Urban has incurred indebtedness and expects to incur significant additional indebtedness on a consolidated basis, which may affect its ability to pay dividends, may expose it to interest rate fluctuation risk and may expose it to the risk of default under CIM Urban's debt obligations.*

As of June 30, 2013, the total consolidated indebtedness of CIM Urban was approximately \$367 million. CIM Urban expects to incur significant additional indebtedness, including through the use and potential expansion of its existing revolving credit lines or the use of a new credit line.

Payments of principal and interest on borrowings may leave CIM Urban's property-owning entities with insufficient cash resources to operate its properties and/or pay distributions. The incurrence of substantial outstanding indebtedness by CIM Urban, and the limitations imposed by the debt agreements of CIM Urban, could have significant other adverse consequences, including the following:

the cash flow of CIM Urban may be insufficient to meet its required principal and interest payments;

CIM Urban may be unable to borrow additional funds as needed or on favorable terms, which could adversely affect CIM Urban's liquidity for acquisitions or operations;

CIM Urban may be unable to refinance its indebtedness at maturity or the refinancing terms may be less favorable than the terms of CIM Urban's original indebtedness;

CIM Urban may be forced to dispose of one or more of its properties, possibly on disadvantageous terms;

CIM Urban will be exposed to interest and future interest rate volatility with respect to indebtedness that is variable rate; and

any property-owning entity may default on its obligations and the lenders or mortgagees may foreclose on CIM Urban's properties and execute on any collateral that secures their loans.

If any one of these events were to occur, CIM Urban's financial condition, results of operations, cash flow, and ability to satisfy its debt service obligations and to pay dividends could be adversely affected. In addition, any foreclosure on CIM Urban's properties could create taxable income without accompanying cash proceeds, which could adversely affect CIM Urban's ability to meet the REIT distribution requirements imposed by the Code.

*CIM Urban may be unable to refinance its indebtedness at maturity or the refinancing terms may be less favorable than the terms of CIM Urban's original indebtedness.*

Upon maturity of indebtedness obtained by CIM Urban, there is no assurance that replacement financing can be obtained or, if it is obtained, that interest rates and other terms would be as favorable as for the original indebtedness. Inability to refinance indebtedness on favorable terms may compel CIM Urban to attempt to dispose of the property or other properties on terms less favorable than might be obtained at a later date. In addition, if the indebtedness matured before refinancing could be procured, the lender could foreclose on the collateral and CIM Urban might suffer losses as a result of that foreclosure. Further, lenders may require insurance against terrorist acts, particularly for large properties in urban areas, and the unavailability of such insurance may make it difficult to finance or refinance investments.

*Third parties seeking to satisfy a liability of CIM Urban may have recourse against all of CIM Urban's assets generally.*

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

CIM Urban's assets, including any investments made by CIM Urban and any funds held by CIM Urban, may be available to satisfy all liabilities and other obligations of CIM Urban. If CIM Urban becomes subject to a



## **Table of Contents**

liability, parties seeking to have the liability satisfied may have recourse to CIM Urban's assets generally and not be limited to any particular asset, such as the asset representing the investment giving rise to the liability. In particular, CIM Urban has a recourse, unsecured line of credit. In the event CIM Urban is unable to pay its obligations as they become due under the line of credit, the lender may pursue any or all of CIM Urban's assets.

*CIM Urban may become subject to risks and liabilities unique to joint venture relationships.*

As of the date of this proxy statement/prospectus, CIM Urban owns two properties through joint venture investments in which it co-invests with another investor. CIM Urban's business plan contemplates further acquisitions of properties through joint ventures and sales to institutions of partial ownership of properties that it wholly owns. Real estate is relatively difficult to sell quickly. CIM Urban may be unable to realize its investment objectives by a sale of equity at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, these risks could arise from weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in domestic or international economic conditions and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. Joint venture investments involve certain risks, including that joint venture partners may control or share certain approval rights over major decisions or might have economic or other business interests or goals that are inconsistent with the business interests of CIM Urban or goals that would affect CIM Urban's ability to operate the property. The occurrence of one or more of the foregoing events could adversely affect CIM Urban's financial condition, results of operations and cash flow and CIM Urban's ability to pay dividends.

*CIM Urban's success depends on the ability of the Advisor to manage its investments, and the Advisor's failure to manage its investments in a sufficient manner could have a material adverse effect on CIM Urban's business strategy, the value of its real estate investments and results of operations.*

CIM Urban presently has no employees. CIM Urban depends on the Advisor's ability to manage its investments in a manner sufficient to maintain or increase revenues and to generate sufficient revenues in excess of its operating and other expenses. The Advisor is not required to dedicate any particular number of employees or employee hours to CIM Urban's business in order to fulfill its obligations under the Investment Management Agreement entered into between CIM Urban and the Advisor (the "Investment Management Agreement"). CIM Urban believes that its success depends to a significant extent upon the experience of the Advisor's senior management team, whose continued service is not guaranteed. CIM Urban is subject to the risk that upon termination of the Investment Management Agreement, no suitable replacement will be found to manage CIM Urban. If the Investment Management Agreement is terminated, CIM Urban may not be able to execute its business plan and may suffer losses, which could have a material adverse effect on its ability to make distributions. The Advisor's failure to manage CIM Urban and its investments will adversely affect the underlying value of CIM Urban's real estate investments, the results of its operations and its ability to make distributions and to pay amounts due on its indebtedness. The terms of the Investment Management Agreement provide that it can only be terminated by the mutual agreement of CIM Urban and the Advisor. Accordingly, CIM Urban is subject to the further risk that it does not have the ability to unilaterally terminate the Investment Management Agreement in the event of the Advisor's poor performance.

*The Manager's and Advisor's fees are payable regardless of CIM Urban's and PMC Commercial's performance, which may reduce their incentive to devote time and resources to CIM Urban's portfolio.*

Pursuant to the Master Services Agreement, the Manager is entitled to receive a base services fee of \$1 million per year, regardless of the performance of PMC Commercial, and is also entitled to receive fees related to the provision of transactional and other services. The Advisor is entitled to receive an asset management fee based upon the gross asset value of CIM Urban's assets, including any assets acquired by CIM Urban in the future. The Manager's and the Advisor's entitlement to substantial non-performance based compensation might reduce their incentive to devote their time and effort to seeking profitable opportunities for CIM Urban's portfolio.

---

**Table of Contents**

*The Advisor's fees are based on the gross asset value of CIM Urban's assets, including any assets acquired by CIM Urban in the future. This fee arrangement may lead the Advisor to recommend riskier investments regardless of their long-term performance in an effort to maximize its compensation.*

The Advisor's fees are based on the gross asset value of CIM Urban's assets, including any assets acquired by CIM Urban in the future, which may provide incentive for the Advisor to invest in assets that are riskier investments regardless of their performance. Consequently, the Advisor may recommend investments that are not necessarily in the best interest of PMC Commercial's shareholders in order to maximize its compensation. Neither CIM Urban nor PMC Commercial has the right pursuant to the terms of the Investment Management Agreement to terminate unilaterally the Investment Management Agreement in the event of CIM Urban's poor investment performance or mismanagement by the Advisor.

*The Advisor, the Manager and their respective affiliates may engage in additional management or investment opportunities which compete with PMC Commercial and its subsidiaries, which could result in decisions that are not in the best interests of PMC Commercial's shareholders.*

The Investment Management Agreement with the Advisor and the Master Services Agreement with the Manager do not prevent the Advisor and the Manager, as applicable, and their respective affiliates from engaging in additional management or investment opportunities, some of which could compete with PMC Commercial and its subsidiaries. The Advisor, the Manager and their respective affiliates may engage in additional management or investment opportunities that have overlapping objectives with CIM Urban, and may thus face conflicts in the allocation of investment opportunities to these other investments. Allocation of investment opportunities is at the discretion of the Advisor and/or the Manager and there is no guarantee that this allocation would be made in the best interest of the PMC Commercial shareholders.

*CIM Urban competes with current and future investment entities affiliated with the Advisor for access to the benefits that CIM Urban's relationship with the Advisor provides to CIM Urban, including access to investment opportunities.*

There may be conflicts of interest in allocating investment opportunities to CIM Urban and other funds, investment vehicles and ventures managed by the Advisor. For example, the Advisor currently serves as the investment manager of CIM VI (Urban REIT), LLC and its parallel funds (collectively, CIM VI), a private fund formed to invest in substantially stabilized real estate and real estate-related assets located in urban areas that CIM Group has already qualified for investment. There will be a significant overlap in the assets and investment strategies of CIM Urban and CIM VI, and many of the same investment personnel will provide services to both entities. Although there are no contractual restrictions limiting the ability of CIM Urban to acquire additional properties, it is the intention of CIM Group not to provide CIM Urban with acquisition opportunities until the equity capital of CIM VI is fully committed. As of the date of this proxy statement/prospectus, approximately \$116 million of equity in CIM VI remains uncommitted; since January 1, 2013, CIM VI has committed and/or invested \$499 million of equity in connection with the purchase, or commitment to purchase, of \$683 million of real estate assets. Further, the Advisor and its affiliates may in the future form additional funds or sponsor additional investment vehicles and ventures that have overlapping objectives with CIM Urban and therefore may compete with CIM Urban for investment opportunities. The ability of the Advisor, the Manager and their officers and employees to engage in other business activities, including the management of other investment vehicles sponsored by CIM Group, may reduce the time the Advisor and the Manager spend managing the activities of CIM Urban and PMC Commercial.

*The business of CIM Urban will be managed by Urban GP Manager, an affiliate of CIM Group, and PMC Commercial will have limited rights with respect to the management and control of CIM Urban.*

Pursuant to the Master Services Agreement, PMC Commercial has agreed to appoint a member of the Manager or any of its affiliates, as designated by the Manager, as the manager (the Urban GP Manager) of Urban Partners GP, LLC, the general partner of CIM Urban (the CIM Urban GP). Subject to the limitations set forth in the

**Table of Contents**

governing documents of CIM Urban and the CIM Urban GP, the Urban GP Manager will have the power and authority to manage, to direct the management, business and affairs of and to make all decisions to be made by or on behalf of (x) the CIM Urban GP and (y) CIM Urban. PMC Commercial will be an indirect limited partner of CIM Urban; the rights and obligations of PMC Commercial will be subject to the limitations set forth in CIM Urban's partnership agreement (the CIM Urban Partnership Agreement); and, except as set forth in the Master Services Agreement and the rights specifically reserved to limited partners by the CIM Urban Partnership Agreement and applicable law, PMC Commercial will have no part in the management and control of CIM Urban.

PMC Commercial may only remove the Urban GP Manager as the manager of the CIM Urban GP for cause (as defined in the Master Services Agreement). Removal for cause also requires the approval of the holders of at least 66 2/3% of the outstanding shares of PMC Commercial (excluding for this purpose any shares held by the Manager and any affiliates of the Manager, except to the extent set forth in the immediately following sentence). Notwithstanding the foregoing, CIM REIT will have the right to vote any shares of PMC Commercial that it owns with respect to any vote held to remove the Urban GP Manager as the manager of the CIM Urban GP; provided, however, if any such removal vote is held after the second anniversary of the Master Services Agreement, CIM REIT shall obtain voting instructions from certain of its non-affiliated investors with respect to voting the shares beneficially owned by such non-affiliated investors and CIM REIT shall vote the number of shares beneficially owned by each such non-affiliated investor as so instructed by such non-affiliated investor. Upon removal, a replacement manager will be appointed by the independent Trust Managers.

***Following consummation of the Merger, the CIM Urban Partnership Agreement will remain in place and CIM Urban will continue to be subject to the investment limitations set forth therein, unless approved by CIM Urban's advisory committee, which may inhibit CIM Urban's ability to make investments that otherwise meet its investment strategy.***

Following consummation of the Merger, the CIM Urban Partnership Agreement, as may be amended from time to time, will remain in place. Accordingly, CIM Urban will continue to be subject to the investment limitations set forth therein, and, without the approval of its advisory committee, which consists of representatives of certain non-affiliated members of CIM REIT, it may not:

invest more than the lesser of (x) 25% of the aggregate capital commitments of its partners and (y) \$500 million of capital contributions in any one asset or company; provided, however, that the foregoing limitation shall not apply to an investment consisting of a portfolio of, or a company or other entity owning, multiple assets (i.e., the foregoing limitation shall apply to each individual asset in any such portfolio or entity);

- (i) invest more than 25% of the aggregate capital commitments of its partners in any metropolitan statistical area (MSA) with a population of 1,000,000 or less or in any recognized real estate submarket of an MSA with a population of more than 1,000,000 or
- (ii) invest more than 50% of the aggregate capital commitments of its partners in any MSA with a population of more than 1,000,000;

invest in the securities of a publicly-traded company, except as part of a transaction or series of transactions designed for the purpose of acquiring control of the company and/or its underlying assets; and

acquire or originate any senior debt (i.e., first mortgage loans) if the acquisition or origination by CIM Urban of such senior debt would cause the aggregate adjusted fair value of all CIM Urban investments that are senior debt to equal or exceed 25% of the aggregate adjusted fair value of all CIM Urban investments (including, without duplication, any property level reserves with respect to such investments).

Accordingly, CIM Urban may not be able to acquire certain investments that otherwise meet its investment strategy. See BUSINESS OF CIM URBAN CIM Urban Partnership Agreement beginning on page 158.

## **Table of Contents**

*The CIM Urban Partnership Agreement contains provisions that give rights to certain unaffiliated members of CIM REIT to influence the business and operations of CIM Urban; such members may have interests that are adverse to PMC Commercial's shareholders and the exercise of such rights may negatively impact the rights of PMC Commercial's shareholders, the ability of CIM REIT and PMC Commercial to effect the Merger or the business of PMC Commercial after the consummation of the Merger.*

The CIM Urban Partnership Agreement requires that CIM Urban maintain an advisory committee composed of certain members of CIM REIT who are not affiliated with the general partner of CIM Urban. As discussed in Business of CIM Urban CIM Urban Partnership Agreement, the advisory committee is responsible for resolving conflicts of interest and selecting a new audit firm for CIM Urban. CIM Urban also may not take certain actions (including those described below) or make certain investments without the consent of the advisory committee. Since the CIM Urban Partnership Agreement will remain in place following the consummation of the Merger and will not be amended to modify or eliminate the rights of the advisory committee, the advisory committee will also remain in place and will continue to be comprised of members of CIM REIT. If the advisory committee refuses to consent to certain actions or arrangements of CIM Urban, it may adversely affect the ability of CIM Urban to manage or expand its business.

The CIM Urban Partnership Agreement requires the consent of a majority in interest of certain members of CIM REIT in order to amend the CIM Urban Partnership Agreement and the Investment Management Agreement. In certain situations, upon a two-thirds vote of certain members of CIM REIT, the general partner of CIM Urban may be removed and replaced. The refusal to permit amendment of the CIM Urban Partnership Agreement or the removal of the general partner by the members of CIM REIT may adversely impact PMC Commercial. Removal of the general partner by such members of CIM REIT prior to the consummation of the Merger may impair the ability of CIM REIT to consummate the Merger.

The CIM Urban Partnership Agreement specifies that CIM Urban is responsible for the operating expenses and obligations of CIM REIT, as well as certain out-of-pocket operating expenses of CIM Urban GP. CIM Urban also has indemnity obligations to CIM Urban GP, the Advisor, any member of the advisory committee and their respective affiliates under the terms of the CIM Urban Partnership Agreement. These obligations may result in material liabilities to CIM Urban.

*CIM Urban may be unable to renew leases or lease vacant office space.*

As of June 30, 2013, leases representing approximately 7.5% of the approximately 5.4 million rentable square feet of CIM Urban's office portfolio were scheduled to expire during the remainder of 2013, and approximately an additional 13.0% of the rentable square footage of CIM Urban's office portfolio was available for lease. These leases may not be renewed, or may be re-leased at rental rates equal to or below existing rental rates. Substantial rent abatements, tenant improvements, concessions, early termination rights or below-market renewal options may be offered to attract new tenants or retain existing tenants. Accordingly, portions of CIM Urban's office properties may remain vacant for extended periods of time. In addition, some existing leases currently provide tenants with options to renew the terms of their leases at rates that are less than the current market rate or to terminate their leases prior to the expiration date thereof. If CIM Urban is unable to obtain rental rates that are on average comparable to its asking rents across its office portfolio, then its ability to generate cash flow growth will be negatively impacted.

*Potential losses may not be covered by insurance.*

CIM Urban's business operations in California, New York, North Carolina, Texas and the District of Columbia are susceptible to, and could be significantly affected by, adverse weather conditions and natural disasters such as earthquakes, tsunamis, hurricanes, volcanoes, wind, blizzards, floods, landslides, drought and fires. These adverse weather conditions and natural disasters could cause significant damage to the properties in its portfolio, the risk of which is enhanced by the concentration of its properties, by aggregate net income and square feet, in California and the District of Columbia. CIM Urban's insurance may not be adequate to cover

## **Table of Contents**

business interruption or losses resulting from adverse weather or natural disasters. CIM Urban does not maintain insurance on its properties for earthquakes, except for those properties for which the lender requires such insurance coverage. In addition, CIM Urban's insurance policies include customary deductibles and limitations on recovery. As a result, CIM Urban may be required to incur significant costs in the event of adverse weather conditions and natural disasters. CIM Urban may discontinue part or all of any insurance coverage on some or all of its properties in the future if the cost of premiums for any of these policies in its judgment exceeds the value of the coverage discounted for the risk of loss.

Furthermore, CIM Urban may not carry insurance for certain losses, including, but not limited to, losses caused by war or by certain environmental conditions, such as mold or asbestos. In addition, its title insurance policies may not insure for the current aggregate market value of its portfolio, and CIM Urban does not intend to increase its title insurance coverage if the market value of its portfolio increases. As a result, CIM Urban may not have sufficient coverage against all losses that CIM Urban may experience, including from adverse title claims. If CIM Urban experiences a loss that is uninsured or that exceeds policy limits, it could incur significant costs and lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties.

In addition, CIM Urban's properties may not be able to be rebuilt to their existing height or size at their existing location under current land-use laws and policies. In the event that CIM Urban experiences a substantial or comprehensive loss of one of its properties, it may not be able to rebuild such property to its existing specifications and otherwise may have to upgrade such property to meet current code requirements.

### ***Terrorism and other factors affecting demand for the properties of CIM Urban could harm its operating results.***

The strength and profitability of CIM Urban's business depends on demand for and the value of its properties. Future terrorist attacks in the United States, such as the attacks that occurred in New York and the District of Columbia on September 11, 2001 and in Boston on April 15, 2013, and other acts of terrorism or war may have a negative impact on its operations. Such terrorist attacks could have an adverse impact on its business even if they are not directed at its properties. In addition, the terrorist attacks of September 11, 2001 have substantially affected the availability and price of insurance coverage for certain types of damages or occurrences, and CIM Urban's insurance policies for terrorism include large deductibles and co-payments. Although CIM Urban maintains terrorism insurance coverage on its portfolio, the lack of sufficient insurance for these types of acts could expose CIM Urban to significant losses and could have a negative impact on its operations.

### ***CIM Urban faces competition.***

CIM Urban's office portfolio competes with a number of developers, owners and operators of office real estate, many of which own properties similar to CIM Urban in the same markets in which its properties are located. If CIM Urban's competitors offer space at rental rates below current market rates, or below the rental rates CIM Urban currently charges its tenants, CIM Urban may lose existing or potential tenants and it may be pressured to reduce its rental rates below those it currently charges or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when its tenants' leases expire. In that case, CIM Urban's financial condition, results of operations, cash flow and ability to satisfy its debt service obligations and to pay dividends may be adversely affected.

CIM Urban's hotel portfolio competes for guests primarily with other hotels in the immediate vicinity of CIM Urban's hotels and secondarily with other hotels in the geographic market of CIM Urban's hotels. An increase in the number of competitive hotels in a particular area could have a material adverse effect on the occupancy, average daily rate and revenue per available room of CIM Urban's hotels in that area.

---

## **Table of Contents**

There are numerous housing alternatives that compete with CIM Urban's apartment communities in attracting residents. These include other apartment communities and single-family homes that are available for rent in the markets in which the communities are located. If the demand for CIM Urban's apartment communities is reduced or if competitors develop and/or acquire competing apartment communities, rental rates may drop, which may have a material adverse effect on CIM Urban's financial condition and results of operations. CIM Urban also faces competition from other real estate investment funds, businesses and other entities in the acquisition, development and operation of apartment communities. This competition may result in an increase in costs and prices of apartment communities that CIM Urban acquires and/or develops.

***Because CIM Urban owns real property, it is subject to extensive environmental regulation which creates uncertainty regarding future environmental expenditures and liabilities.***

Environmental laws regulate, and impose liability for, releases of hazardous or toxic substances into the environment. Under some of these laws, an owner or operator of real estate may be liable for costs related to soil or groundwater contamination on or migrating to or from its property. In addition, persons who arrange for the disposal or treatment of hazardous or toxic substances may be liable for the costs of cleaning up contamination at the disposal site.

These laws often impose liability regardless of whether the person knew of, or was responsible for, the presence of the hazardous or toxic substances that caused the contamination. Contamination resulting from any of these substances, or the failure to properly remediate them, may adversely affect CIM Urban's ability to sell or rent its property or to borrow using the property as collateral. In addition, persons exposed to hazardous or toxic substances may sue for personal injury damages. For example, some laws impose liability for release of or exposure to asbestos-containing materials. In other cases, some of the properties of CIM Urban may have been impacted by contamination from past operations or from off-site sources. As a result, CIM Urban may be potentially liable for investigation and cleanup costs, penalties and damages under environmental laws.

Although most of CIM Urban's properties have been subjected to preliminary environmental assessments, known as Phase I assessments, by independent environmental consultants that identify certain liabilities, Phase I assessments are limited in scope, and may not include or identify all potential environmental liabilities or risks associated with the property. Unless required by applicable law, CIM Urban may decide not to further investigate, remedy or ameliorate the liabilities disclosed in the Phase I assessments. Further, these or other environmental studies may not identify all potential environmental liabilities or accurately assess whether CIM Urban will incur material environmental liabilities in the future. If CIM Urban does incur material environmental liabilities in the future, it may face significant remediation costs, and it may find it difficult to sell any affected properties.

***Compliance with the Americans with Disabilities Act (ADA) and fire, safety and other regulations may require CIM Urban to make unanticipated expenditures that could significantly reduce the cash available for dividends.***

Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Although CIM Urban believes that its properties substantially comply with present requirements of the ADA, it has not conducted an audit or investigation of all of its properties to determine its compliance. If one or more of its properties or future properties is not in compliance with the ADA, then CIM Urban would be required to incur additional costs to bring the property into compliance. Additional federal, state and local laws also may require modifications to its properties or restrict its ability to renovate its properties. CIM Urban cannot predict the ultimate amount of the cost of compliance with the ADA or other legislation.

In addition, CIM Urban properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If CIM Urban were to fail to comply with these various requirements, it might incur governmental fines or private damage awards. If CIM Urban incurs substantial costs

## **Table of Contents**

to comply with the ADA or any other regulatory requirements, its financial condition, results of operations, cash flow, ability to satisfy its debt service obligations and to pay dividends could be adversely affected. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict its use of its properties and may require it to obtain approval from local officials or community standards organizations at any time with respect to its properties, including prior to acquiring a property or when undertaking renovations of any of its existing properties.

***CIM Urban may be unable to complete acquisitions that would grow its business and, even if consummated, CIM Urban may fail to successfully integrate and operate acquired properties.***

CIM Urban plans to acquire additional properties as opportunities arise. CIM Urban's ability to acquire properties on favorable terms and successfully integrate and operate them is subject to the following significant risks:

CIM Urban may be unable to acquire desired properties because of competition from other real estate investors with better access to less expensive capital, including other real estate operating companies, publicly-traded REITs and investment funds;

CIM Urban may acquire properties that are not accretive to its results upon acquisition, and CIM Urban may not successfully manage and lease those properties to meet its expectations;

competition from other potential acquirers may significantly increase purchase prices;

CIM Urban may be unable to generate sufficient cash from operations or obtain the necessary debt or equity financing to consummate an acquisition on favorable terms or at all;

CIM Urban may need to spend more than anticipated amounts to make necessary improvements or renovations to acquired properties;

CIM Urban may spend significant time and money on potential acquisitions that CIM Urban does not consummate;

CIM Urban may be unable to quickly and efficiently integrate new acquisitions into its existing operations;

CIM Urban may suffer higher than expected vacancy rates and/or lower than expected rental rates; and

CIM Urban may acquire properties without any recourse, or with only limited recourse, for liabilities against the former owners of the properties.

If CIM Urban cannot complete property acquisitions on favorable terms, or operate acquired properties to meet its goals or expectations, its financial condition, results of operations, cash flow, ability to satisfy its debt service obligations and to pay dividends could be adversely affected.

***CIM Urban may be unable to successfully expand its operations into new markets.***

Each of the risks applicable to CIM Urban's ability to acquire and successfully integrate and operate properties in the markets in which its properties are located are also applicable to its ability to acquire and successfully integrate and operate properties in new markets. In addition to these risks, CIM Urban may not possess the same level of familiarity with the dynamics and market conditions of certain new markets that it

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

may enter, which could adversely affect its ability to expand into those markets. CIM Urban may be unable to build a significant market share or achieve a desired return on its investments in new markets. If CIM Urban is unsuccessful in expanding into new markets, it could adversely affect its financial condition, results of operations, cash flow, ability to satisfy its debt service obligations and to pay dividends.



## **Table of Contents**

***Following the Merger, CIM Urban may expand into new real estate-related activities and investors will not have any approval rights regarding expansion strategies or specific future investments.***

Following the Merger, CIM Urban may expand its operations into new real estate-related activities, including, without limitation, (i) originating and/or investing in a variety of loan products, including, but not limited to, mezzanine loans, commercial real estate loans and other types of loans and/or (ii) real estate development activities to create substantially stabilized properties. As of the date of this proxy statement/prospectus such new real estate-related activities have not been determined and CIM Urban has not yet identified any future investments for its portfolio. Investors will not have any approval rights with respect to expansion strategies or future investments. Investors will therefore be relying on the Advisor with respect to future investments to be made by CIM Urban.

***CIM Urban may make investments outside of the U.S., which would subject it to additional risks that may affect its operations favorably or unfavorably.***

CIM Urban may invest some of its capital outside of the U.S. CIM Urban's investments in foreign countries will be affected favorably or unfavorably by changes in exchange rates due to political and economic factors, including inflation. Because non-U.S. companies are not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable with those applicable to U.S. companies, there may be different types of, and lower quality, information available about non-U.S. companies and their assets. This may affect CIM Urban's ability to underwrite and evaluate proposed investments in foreign countries or to obtain appropriate financial reports relating to such investments. In addition, with respect to certain countries, there may be an increased potential for corrupt business practices, or the possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments that could affect CIM Urban's investments in those countries. Moreover, individual economies will differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, changes in currency rates and exchange control regulations and capital reinvestment.

***If CIM Urban were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for CIM Urban to continue its business as contemplated and could have an adverse effect on CIM Urban's business.***

CIM Urban is not an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act") and intends to conduct its operations so that it will not be deemed an investment company. However, if it were to be deemed an investment company, restrictions imposed by the Investment Company Act, including limitations on the nature of investments and ability to transact with affiliates, could make it impractical for CIM Urban to continue its business as contemplated. In addition, the Investment Company Act imposes certain requirements on companies deemed to be within its regulatory scope, including registration as an investment company, adoption of a specific form of corporate structure and compliance with certain burdensome reporting, record keeping, voting, proxy, disclosure and other rules and regulations. In the event of the characterization of CIM Urban as an investment company, the failure by CIM Urban to satisfy such regulatory requirements, whether on a timely basis or at all, would, under certain circumstances, also have a material adverse effect on CIM Urban.

### **Risks Related to PMC Commercial after the Merger**

***PMC Commercial expects to incur substantial expenses related to the Merger.***

PMC Commercial expects to incur substantial expenses in connection with completing the Merger and integrating the business, operations, networks, systems, technologies, policies and procedures of CIM Urban with those of PMC Commercial. There are several systems that must be integrated, including accounting and finance and asset management. While PMC Commercial has assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond its control that could affect the total amount or

---

**Table of Contents**

the timing of its integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time.

***If PMC Commercial fails to maintain an effective system of internal control over financial reporting after the Merger, it may not be able to accurately report its financial results or prevent fraud. As a result, shareholders could lose confidence in PMC Commercial's financial and other public reporting, which would harm its business and the trading price of the PMC Commercial Common Shares.***

CIM Urban is currently privately owned and has not been subject to complying with the rules and regulations that are applicable to publicly-traded companies including, without limitation, those of the SEC, national securities exchanges and the Public Company Accounting Oversight Board, federal and state securities laws and the Sarbanes-Oxley Act of 2002. Upon completion of the Merger, PMC Commercial will continue as a public company subject to Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting, subject to a possible one year deferral as discussed below. PMC Commercial will be required to expand and integrate CIM Urban into its internal controls and procedures.

Effective internal controls over financial reporting are necessary for PMC Commercial to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to integrate CIM Urban into its controls and procedures or to implement required new or improved controls, or difficulties encountered in their integration or implementation, could cause PMC Commercial to fail to meet its reporting obligations. In addition, any testing by PMC Commercial or its independent registered public accounting firm conducted in connection with Section 404 of the Sarbanes-Oxley Act may reveal deficiencies in PMC Commercial's internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to its consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in PMC Commercial's reported financial information, which could have a negative effect on the trading price of the PMC Commercial Common Shares.

PMC Commercial is required to disclose changes made in its internal control procedures on a quarterly basis and its management is required to assess the effectiveness of these controls annually. However, as permitted by the SEC, management's assessment of these controls in PMC Commercial's annual report on Form 10-K for the calendar year ended December 31, 2013 will not cover CIM Urban and its subsidiaries. In addition, PMC Commercial may be able to exclude an assessment of internal controls for the calendar year ended December 31, 2013 as well. Moreover, PMC Commercial's independent registered public accounting firm will not attest to the effectiveness of PMC Commercial's internal control over financial reporting with respect to CIM Urban and its subsidiaries in PMC Commercial's annual report on Form 10-K for the calendar year ended December 31, 2013. An independent assessment of the effectiveness of PMC Commercial's internal controls could detect problems that its management's assessment might not. Undetected material weaknesses in PMC Commercial's internal controls could lead to financial statement restatements and require it to incur the expense of remediation.

***If PMC Commercial is unable to integrate successfully the operations of CIM Urban, its business and earnings may be negatively affected.***

The Merger will involve the integration of companies, which currently operate as a publicly-traded REIT and a privately owned limited partnership that have previously operated independently from each other. Successful integration of the operations of CIM Urban will depend primarily on PMC Commercial's ability to consolidate business, operations, networks, systems, technologies, policies and procedures. The Merger will also pose other risks commonly associated with similar transactions, including unanticipated liabilities, unexpected costs and the diversion of management's attention to the integration of the operations of PMC Commercial and CIM Urban. PMC Commercial may not be able to integrate CIM Urban's operations without encountering difficulties, including, but not limited to, the loss of key employees, the disruption of its respective ongoing businesses or possible inconsistencies in standards, controls, procedures and policies. If PMC Commercial has difficulties with any of these integrations, this may hurt its business and financial results.

---

**Table of Contents**

*The historical and unaudited pro forma combined condensed financial information included elsewhere in this proxy statement/prospectus may not be representative of PMC Commercial's results following the Merger, and accordingly, this proxy statement/prospectus presents limited financial information on which to evaluate PMC Commercial on a post-Merger basis.*

The unaudited pro forma combined condensed financial information included elsewhere in this proxy statement/prospectus has been presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that actually would have occurred had the Merger been completed as of the date indicated, nor is it indicative of the future operating results or financial position of PMC Commercial. The unaudited pro forma combined condensed financial information does not reflect future events that may occur after the effective time of the Merger, including the costs related to any future nonrecurring charges resulting from the Merger, and does not consider potential impacts of current market conditions on revenues or expense efficiencies. The unaudited pro forma combined condensed financial information presented elsewhere in this proxy statement/prospectus is based in part on certain assumptions regarding the Merger that PMC Commercial and CIM Urban believe are reasonable under the circumstances. PMC Commercial and CIM Urban cannot assure you that the assumptions will prove to be accurate over time.

*The future consolidated results of PMC Commercial and its subsidiaries, including CIM Urban, after the Merger may suffer if PMC Commercial does not effectively manage its expanded operations following the Merger.*

Following the Merger, PMC Commercial may continue to expand its operations through additional acquisitions and other strategic transactions, some of which may involve complex challenges. The future success of PMC Commercial and its subsidiaries after the Merger will depend, in part, upon its ability to manage its expansion opportunities, integrate new operations and business lines in an efficient and timely manner, successfully monitor its operations, costs, regulatory compliance and service quality, and maintain other necessary internal controls. PMC Commercial's expansion or acquisition opportunities may not be successful, and the combined company may not realize its expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

*PMC Commercial may be unable to secure funds for its future long-term liquidity needs, which could adversely impact PMC Commercial's business and results of operations.*

Following consummation of the Merger, PMC Commercial's long-term liquidity needs will consist primarily of funds necessary to pay for development or repositioning of properties, non-recurring capital expenditures, loan originations and refinancing of indebtedness. PMC Commercial may not have sufficient funds on hand or may not be able to obtain additional financing to cover all of these long-term cash requirements. The nature of PMC Commercial's business, and the requirements imposed by REIT rules that it distribute a substantial majority of its REIT taxable income on an annual basis in the form of dividends, may cause PMC Commercial to have substantial liquidity needs over the long-term. PMC Commercial will seek to satisfy its long-term liquidity needs through cash flows from operations, long-term secured indebtedness and property dispositions. These sources of funding may not be available on attractive terms or at all. If PMC Commercial cannot obtain additional funding for its long-term liquidity needs, its investments may generate lower cash flows or decline in value, or both, which may cause PMC Commercial to reduce its dividend or sell assets at a time when it would not otherwise do so.

*PMC Commercial cannot assure you that it will be able to pay dividends.*

PMC Commercial plans to pay a quarterly dividend of \$0.04375 per PMC Commercial Common Share following the Merger, which is less than the quarterly dividend that PMC Commercial is currently paying. The payment of such dividends to PMC Commercial shareholders may be impacted by various factors, including the following:

PMC Commercial may not have enough capital resources to pay such dividends due to changes in PMC Commercial's cash requirements, capital spending plans, cash flow or financial position;

**Table of Contents**

holders of PMC Commercial Preferred Shares are entitled to receive dividends prior to holders of PMC Commercial Common Shares and there may be insufficient cash to pay dividends on PMC Commercial Common Shares after the payment of dividends to holders of PMC Commercial Preferred Shares;

decisions on whether, when and in which amounts to make any future dividends will remain at all times entirely at the discretion of the Board of Trust Managers, which reserves the right to change PMC Commercial's dividend practices at any time and for any reason;

to the extent that PMC Commercial obtains credit ratings, PMC Commercial may desire to retain cash to maintain or improve its credit ratings; and

the amount of dividends that PMC Commercial's subsidiaries may distribute to PMC Commercial is subject to restrictions imposed by the SBA and may be subject to restrictions imposed by state law, restrictions that may be imposed by state regulators, and restrictions imposed by the terms of any current or future indebtedness that these subsidiaries may incur.

PMC Commercial's shareholders have no contractual or other legal right to dividends that have not been declared. Only if the Merger is approved and consummated will a holder of PMC Commercial Common Shares be entitled to receive the Special Dividend.

***PMC Commercial depends on the experience and expertise of its executive management team, and the loss of the services of its key personnel could have a material adverse effect on PMC Commercial's business strategy, financial condition and results of operations.***

PMC Commercial is dependent on the efforts, diligence, skill, network of business contacts and close supervision of all aspects of its business by its executive management team. The loss of these members of executive management or key personnel could harm PMC Commercial's business strategy, financial condition and results of operations. Following the Merger, PMC Commercial will also be dependent on the efforts, diligence, skill, network of business contacts and close supervision of certain aspects of its business by the senior management team of the Advisor.

***Following the Merger, the Manager will have the right to manage the business of PMC Commercial and its subsidiaries pursuant to the Master Services Agreement and other investment management agreements. Notwithstanding the fact that these agreements provide broad discretion and authority and the payment of fees to the Manager, the agreements may be assigned by the Manager in certain circumstances without PMC Commercial's consent and may not be terminated by PMC Commercial, except in the case of the Master Services Agreement, in limited circumstances for cause, either or both of which may have a material adverse effect on PMC Commercial.***

Effective upon the completion of the Merger, the Manager and PMC Commercial will enter into the Master Services Agreement pursuant to which the Manager will have the right to provide or designate third parties to provide various management and administrative services to PMC Commercial and its direct and indirect subsidiaries. PMC Commercial will be obligated to pay the Manager a quarterly base service fee of \$250,000 for the provision of base services and market rate transaction fees for transactional and other services that the Manager elects to provide to PMC Commercial. Pursuant to the terms of the Master Services Agreement, the Manager will have the right to provide any transactional services to PMC Commercial that PMC Commercial would otherwise engage a third party to provide.

Pursuant to the terms of the Master Services Agreement, the Manager may also recommend new business opportunities to PMC Commercial for its approval and will make a recommendation as to whether each such new business should be internally managed or externally managed and if externally managed, the external manager and the terms of the management agreement. If the proposed external manager is to be the Manager, PMC Commercial's independent Trust Managers must approve the decision to make such new business externally

## **Table of Contents**

managed and the terms of the applicable management agreement. If such new business is to be internally managed, the Manager will oversee the hiring of personnel and the implementation of internal management as a transactional service.

The Master Services Agreement continues in full force and effect until December 31, 2018, and thereafter will renew automatically each year. PMC Commercial may generally only terminate the Master Services Agreement for the Manager's material breach of the Master Services Agreement, fraud, gross negligence or willful misconduct or if in certain limited circumstances, a change of control of the Manager occurs that PMC Commercial's independent Trust Managers determine to be materially detrimental to PMC Commercial and its subsidiaries as a whole. PMC Commercial does not have the right to terminate the Master Services Agreement solely for the poor performance of PMC Commercial's operations or any investment made by PMC Commercial on the recommendation of the Manager.

Further, the Master Services Agreement may be assigned by the Manager without the consent of PMC Commercial in the case of an assignment by the Manager to an affiliate or an entity that is a successor through merger or acquisition of the business of the Manager. In certain circumstances, including the merger or other acquisition of the business of the Manager, the amount of fees being paid pursuant to the agreements or the poor performance by the Manager, PMC Commercial may desire to terminate one or more of the management agreements. As a result of the limited termination rights under these agreements, it may not have the right to terminate such agreement(s), which could have a material adverse effect on PMC Commercial. See THE REGISTRATION RIGHTS AND LOCKUP AGREEMENT; MASTER SERVICES AGREEMENT Master Services Agreement beginning on page 103.

### ***REITs are subject to a range of complex organizational and operational requirements.***

In order to continue to qualify as a REIT, PMC Commercial must distribute with respect to each taxable year at least 90% of its REIT taxable income (excluding capital gains) to its shareholders. A REIT must also meet certain requirements with respect to the nature of its income and assets, and the ownership of its shares. For any taxable year that PMC Commercial fails to qualify as a REIT, it will not be allowed a deduction for dividends paid to its shareholders in computing taxable income and thus would become subject to U.S. federal income tax as if it were a regular taxable corporation. In such an event, PMC Commercial could be subject to potentially significant tax liabilities. Unless entitled to relief under certain statutory provisions, PMC Commercial would also be disqualified from treatment as a REIT for the four taxable years following the year in which it lost its qualification. If PMC Commercial failed to qualify as a REIT, the market price of PMC Commercial Common Shares may decline, and PMC Commercial may need to reduce substantially the amount of distributions to its shareholders because of its increased tax liability.

The rules regulating REITs impose restrictions on the types of investments a REIT can make and the types of activities in which it can engage directly. PMC Commercial's activities will be limited by these restrictions. PMC Commercial might, however, also make certain investments or engage in certain activities that a REIT could not engage in directly (e.g., the sale of condominiums) through one or more taxable REIT subsidiaries ( TRSs ). Any income earned through a TRS would be subject to federal income tax at regular corporate rates.

### ***Future sales of the PMC Commercial Common Shares may cause its market price to drop significantly, even if PMC Commercial's business is doing well.***

The CIM Parties will be entitled to registration rights, subject to certain limitations, with respect to the PMC Commercial securities they receive in the Merger pursuant to the Registration Rights and Lockup Agreement to be entered into in connection with the consummation of the Merger. The CIM Parties will be entitled to require PMC Commercial, on up to eight occasions, to register under the Securities Act the PMC Commercial Common Shares they receive in the Merger and the PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares they receive in the Merger.

---

**Table of Contents**

In accordance with lockup provisions included in the Registration Rights and Lockup Agreement, the CIM Parties will not be permitted to engage in public sales of the PMC Commercial Common Shares they receive in the Merger (and the PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares they receive in the Merger) until after the 12-month anniversary of the consummation of the Merger without restriction, provided that these restrictions do not apply with respect to 40 million PMC Commercial Common Shares six months following the Merger with the prior approval of a majority of the independent Trust Managers. There shall be no lockup restrictions applied to private sales or transfer of such shares.

Following the expiration of the lockup restrictions, there may be significant pent-up demand by CIM REIT to sell its PMC Commercial Common Shares. A large volume of sales of PMC Commercial Common Shares could decrease the prevailing market price of the PMC Commercial Common Shares and could impair PMC Commercial's ability to raise additional capital through the sale of equity securities in the future. Even if a substantial number of sales of PMC Commercial Common Shares do not occur, the mere perception of the possibility of these sales could depress the market price of PMC Commercial Common Shares and have a negative effect on PMC Commercial's ability to raise capital in the future.

***Certain of PMC Commercial's Trust Managers and executive officers after the Merger may face conflicts of interest related to positions they hold with the Advisor, CIM Group and their affiliates, which could result in decisions that are not in the best interest of PMC Commercial's shareholders.***

Following the completion of the Merger, PMC Commercial anticipates that some of its Trust Managers and executive officers will be individuals who are also part owners, officers and directors of CIM Group, the Advisor, the Manager and their affiliates. As a result, they may owe fiduciary duties to these various other entities and their equity owners, which fiduciary duties may from time to time conflict with the fiduciary duties they owe to PMC Commercial and its shareholders. Further, these multiple responsibilities may create conflicts of interest for these individuals if they are presented with opportunities that may benefit PMC Commercial and their other affiliates. The individuals may be incentivized to allocate investment opportunities to other entities rather than to PMC Commercial. Their loyalties to other affiliated entities could result in actions or inactions that are detrimental to PMC Commercial's business, strategy and investment opportunities. See CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Interests of Trust Managers in Fees Paid to CIM Group.

***If PMC Commercial and CIM Urban seek to internalize the management functions provided pursuant to the Master Services Agreement and the Investment Management Agreement, there is no assurance that PMC Commercial could reach agreements with the Manager and the Advisor and PMC Commercial could incur substantial costs and lose certain key personnel.***

At some point in the future, the Board of Trust Managers may determine that it is in the best interest of PMC Commercial and CIM Urban to become self-managed by internalizing the functions performed by the Manager and the Advisor and to terminate the Master Services Agreement and the Investment Management Agreement. However, neither PMC Commercial nor CIM Urban has the unilateral right to terminate the Master Services Agreement or the Investment Management Agreement, and neither the Manager nor the Advisor would be obligated to enter into an internalization transaction with PMC Commercial or CIM Urban. There is no assurance that a mutually acceptable agreement with these entities as to the terms of the internalization could be reached. In addition, the costs that PMC Commercial and CIM Urban would incur in any such internalization transaction are uncertain and could be substantial.

Further, if PMC Commercial and CIM Urban were to internalize these management functions, certain key employees may not become employees of PMC Commercial but may instead remain employees of the Manager and the Advisor or their respective affiliates, especially if the management functions are internalized but the Manager and the Advisor are not acquired by PMC Commercial. An inability to manage an internalization

---

**Table of Contents**

transaction could effectively result in PMC Commercial's incurring excess costs and suffering deficiencies in its disclosure controls and procedures or its internal control over financial reporting. These deficiencies could cause it to incur additional costs, and management's attention could be diverted from most effectively managing its investments, which could result in it incurring unanticipated costs in connection with any internalization transaction.

***PMC Commercial may incur adverse tax consequences if PMC Commercial or any REIT subsidiary of CIM Urban has failed or fails to qualify as a REIT for U.S. federal income tax purposes.***

CIM Urban holds investments through REIT subsidiaries. Each of PMC Commercial and each REIT subsidiary of CIM Urban has operated in a manner that it believes has allowed it to qualify as a REIT for federal income tax purposes under the Code, and PMC Commercial and each such REIT subsidiary of CIM Urban intends to continue operating in such a manner. Neither of PMC Commercial nor any such REIT subsidiary of CIM Urban has requested or plans to request a ruling from the IRS that it qualifies as a REIT. Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury Regulations that have been promulgated under the Code is greater in the case of a REIT that holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within the control of PMC Commercial or any such REIT subsidiary of CIM Urban may affect its ability to qualify as a REIT. In order to qualify as a REIT, each of PMC Commercial and each such REIT subsidiary of CIM Urban must satisfy a number of requirements, including requirements regarding the ownership of its shares, requirements regarding the composition of its assets and a requirement that at least 95% of its gross income in any year must be derived from qualifying sources, such as rents from real property. Also, a REIT must make distributions to shareholders aggregating annually at least 90% of its net taxable income, excluding any net capital gains. If any REIT subsidiary of CIM Urban has failed or fails to qualify as a REIT for any reason, and the Merger is completed, PMC Commercial would succeed to or incur significant tax liabilities and its ownership of CIM Urban could result in PMC Commercial failing to qualify as a REIT.

If PMC Commercial loses its REIT status, it will face serious tax consequences that would substantially reduce its cash available for distribution, including cash available to pay dividends to its shareholders, for each of the years involved because:

it would not be allowed a deduction for dividends paid to shareholders in computing its taxable income and would be subject to federal income tax at regular corporate rates;

it also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

unless it is entitled to relief under applicable statutory provisions, it could not elect to be taxed as a REIT for four taxable years following the year during which it was disqualified.

In addition, if PMC Commercial fails to qualify as a REIT, it will not be required to make distributions to shareholders, and accordingly, distributions from CIM Urban could be similarly reduced. As a result of all these factors, PMC Commercial's failure to qualify as a REIT could impair its ability to expand its business and raise capital, and would materially adversely affect the value of its shares.

While (i) DLA Piper LLP (US) and Locke Lord LLP will provide opinions at the closing of the Merger to the effect that each REIT subsidiary of CIM Urban and PMC Commercial, respectively, has been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code, and (ii) DLA Piper LLP (US) will provide an opinion at the closing of the Merger to the effect that, after giving effect to the Merger, PMC Commercial's proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code in the future, opinions of counsel are not binding upon the IRS or any court and there can be no assurances that each REIT subsidiary of CIM Urban or

---

**Table of Contents**

PMC Commercial has in fact met the requirements for taxation as a REIT. See THE MERGER AGREEMENT Conditions to Complete the Merger and MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES Taxation of PMC Commercial.

*After the Merger, the power of the Board of Trust Managers to revoke PMC Commercial's REIT election without shareholder approval may cause adverse consequences to its shareholders.*

If the Reincorporation occurs, PMC Commercial's organizational documents will permit its Board of Trust Managers to revoke or otherwise terminate its REIT election, without the approval of its shareholders, if the Board of Trust Managers determines that it is not in PMC Commercial's best interest to qualify as a REIT. In such a case, PMC Commercial would become subject to U.S. federal, state and local income tax on its net taxable income and PMC Commercial would no longer be required to distribute most of its net taxable income to its shareholders, which may have adverse consequences on the total return to its shareholders.

*PMC Commercial and CIM Urban face other risks.*

The risks listed above are not exhaustive, and you should be aware that following the Merger, PMC Commercial and CIM Urban will face various other risks, including those discussed in the reports filed by PMC Commercial with the SEC. See WHERE YOU CAN FIND MORE INFORMATION beginning on page 204.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus and the annexes to this proxy statement/prospectus contain forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Further, statements that include words such as may, will, project, might, expect, believe, anticipate, intend, could, would, estimate, continue or pursue, or the negative or other words of similar meaning, may identify forward-looking statements, and statements regarding the benefits of the Merger or PMC Commercial's or CIM Urban's future financial condition, results of operations and business are also forward-looking statements. Without limiting the generality of the preceding sentence, certain information contained in the sections THE MERGER Background of the Merger, The Merger Reasons for the Merger and THE MERGER Recommendation of the PMC Commercial Board of Trust Managers constitute forward-looking statements.

PMC Commercial and CIM REIT base these forward-looking statements on particular assumptions that they have made in light of their industry experience, as well as their perception of historical trends, current conditions, expected future developments and other factors that they believe are appropriate under the circumstances. The forward-looking statements are necessarily estimates reflecting the judgment of PMC Commercial's and CIM REIT's management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. In addition to other factors and matters contained in this proxy statement/prospectus, including those disclosed under RISK FACTORS beginning on page 37, these forward-looking statements are subject to risks, uncertainties and other factors, including, among others:

the ability of PMC Commercial to implement the combined company's operating strategy and to achieve success after completion of the Merger;

the inability to complete the Merger due to the failure to obtain approval of the Share Issuance Proposal by PMC Commercial's shareholders or other conditions to completion of the Merger described in the Merger Agreement;

the failure of the Merger to be completed for any other reason or any significant delay in the expected completion of the Merger contemplated by the Merger Agreement;

the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement and the fact that a termination under certain circumstances could require PMC



**Table of Contents**

Commercial to pay CIM REIT a termination fee and expense reimbursement, as described under THE MERGER AGREEMENT Termination Fees and Expenses beginning on page 99;

the possibility that the Merger involves unexpected costs that may be in addition to or exceed PMC Commercial's and CIM REIT's estimates of Merger-related costs and expenses;

the outcome of any litigation and judicial actions that may be instituted against PMC Commercial, CIM REIT and others relating to the Merger;

the risk that the announcement of the Merger disrupts PMC Commercial's or CIM REIT's ongoing business operations;

adverse changes in the real estate and real estate capital markets;

changes in laws, including increased tax rates, changes in regulations or accounting standards, third-party relations and approvals, and decisions of courts, regulations and governmental bodies;

the outcome of current and future litigation, regulatory proceedings or inquiries;

changes in general political, economic and competitive conditions and specific market conditions; and other risks detailed in PMC Commercial's filings with the SEC, including PMC Commercial's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, a copy of which is incorporated by reference into this proxy statement/prospectus. See also WHERE YOU CAN FIND MORE INFORMATION on page 204 of this proxy statement/prospectus.

As you read and consider the information in this proxy statement/prospectus, you are cautioned to not place undue reliance on these forward-looking statements. These statements are not guarantees of performance or results and speak only as of the date of this proxy statement/prospectus, in the case of forward-looking statements contained in this proxy statement/prospectus, or the dates of the documents attached as annexes to this proxy statement/prospectus, in the case of forward-looking statements made in those documents. These forward-looking statements involve risks, uncertainties and assumptions. In light of these risks and uncertainties, there can be no assurance that the results and events contemplated by the forward-looking statements contained in this proxy statement/prospectus or the annexes to this proxy statement/prospectus will in fact transpire. New factors emerge from time to time, and it is not possible for PMC Commercial or CIM REIT to predict all of them. Nor can PMC Commercial or CIM REIT assess the impact of each such factor or the extent to which any factor, or combination of factors may cause results to differ materially from those contained in any forward-looking statement.

Neither PMC Commercial nor CIM REIT undertake any obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the data of this proxy statement/prospectus or to reflect the occurrence of unanticipated events, except as required by law.

**All subsequent written or oral forward-looking statements concerning the Merger or the other transactions contemplated by the Merger Agreement or other matters addressed in this proxy statement/prospectus and attributable to PMC Commercial, on the one hand, and/or CIM REIT, on the other hand, or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section of this proxy statement/prospectus.**

**Table of Contents**

**THE PARTIES TO THE MERGER**

**PMC Commercial Trust**

17950 Preston Road, Suite 600

Dallas, Texas 75252

(972) 349-3200

PMC Commercial is a REIT organized in 1993 that primarily originates loans to small businesses collateralized by first liens on the real estate of the related business, predominantly in the hospitality industry (94% at June 30, 2013). Its operations are located in Dallas, Texas and include originating, servicing and selling the government guaranteed portions of certain loans. PMC Commercial originates loans, either directly or through its wholly-owned lending subsidiaries, as follows: First Western SBLC, Inc., PMC Investment Corporation and Western Financial Capital Corporation. First Western is licensed as a small business lending company that originates loans through the Small Business Administration's 7(a) Guaranteed Loan Program. PMCIC and Western Financial are licensed small business investment companies.

**Southfork Merger Sub, LLC**

c/o PMC Commercial Trust

17950 Preston Road, Suite 600

Dallas, Texas 75252

(972) 349-3200

Southfork Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of PMC Commercial, or PMC Merger Sub, was formed solely for the purpose of completing the Merger and has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

**CIM Urban REIT, LLC c/o CIM Group**

6922 Hollywood Blvd., Ninth Floor

Los Angeles, California 90028

Attn: General Counsel

(323) 860-4900

CIM REIT, through its wholly-owned subsidiary, CIM Urban, invests primarily in substantially stabilized real estate and real estate-related assets in high density, high barrier to entry urban markets throughout North America, which CIM Group has targeted for opportunistic investment and which are likely, in CIM Group's opinion, to experience above-average rent growth relative to national averages and/or their neighboring CBDs.

**CIM Merger Sub, LLC c/o CIM Group**

6922 Hollywood Blvd., Ninth Floor

Los Angeles, California 90028

Attn: General Counsel

(323) 860-4900

CIM Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of CIM REIT, was formed solely for the purpose of completing the Merger and has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the Merger Agreement.

**Table of Contents**

**THE SPECIAL MEETING**

This proxy statement/prospectus is being furnished in connection with the solicitation of proxies from PMC Commercial shareholders for use at the PMC Commercial special meeting. This proxy statement/prospectus and accompanying form of proxy are first being mailed to PMC Commercial shareholders on or about [ ], 2013.

**Date, Time and Place**

The special meeting of the PMC Commercial shareholders will be held at [ ], on [ ], 2013 at 9:00 a.m., Central Daylight Time.

**Purpose**

At the special meeting, PMC Commercial shareholders will be asked to approve the Share Issuance Proposal, to approve, by a non-binding advisory vote, the Merger-Related Compensation Proposal, and to approve any adjournment of the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal.

**Record Date; Voting Rights**

You are entitled to vote at the special meeting if you owned PMC Commercial Common Shares at the close of business on [ ], 2013, the record date for the special meeting, unless a new record date is fixed for any adjournment or postponement of the special meeting. As of the record date, there were [ ] PMC Commercial Common Shares issued and outstanding. The holder as of the record date of each PMC Commercial Common Share is entitled to one vote per share.

**Quorum**

The holders of a majority of the outstanding PMC Commercial Common Shares entitled to vote at the special meeting and present in person or represented by proxy will constitute a quorum at the special meeting.

**Required Vote**

The approval of the Share Issuance Proposal requires the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting.

The approval of the Merger-Related Compensation Proposal, which is a non-binding advisory vote, requires the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting.

The approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal will require the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting. Less than a quorum may adjourn the special meeting.

The Share Issuance Proposal is not conditioned on the approval of the Merger-Related Compensation Proposal or the adjournment proposal, as approval of the Share Issuance Proposal is the only PMC Commercial shareholder approval required for consummation of the Merger.

**Voting; Proxies**

Votes may be cast either in person or by a properly executed proxy. Abstentions will have the same effect as votes against the approval of the Share Issuance Proposal, the Merger-Related Compensation Proposal and the

---

**Table of Contents**

proposal to adjourn the special meeting. Inasmuch as no routine matters will be voted upon at the special meeting, no broker non-votes will be cast at the special meeting, and therefore broker non-votes will have no effect on the vote count for the Share Issuance Proposal, the Merger-Related Compensation Proposal or the proposal to adjourn the special meeting.

You may submit your proxy either by telephone, through the Internet or by mailing the enclosed proxy card, or you may vote in person at the special meeting. To submit your proxy by telephone, dial 1-800-[ ] using a touch tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the enclosed proxy card. To submit your proxy through the Internet, visit [www.\[ \]](http://www.[ ]). You will be asked to provide the company number and control number from the enclosed proxy card. Proxies submitted by telephone or through the Internet must be received by [ ], [ ].m., Central Daylight Time, on [ ], 2013.

To submit your proxy by mail, complete, date and sign each proxy card you receive and return it as promptly as practicable in the enclosed prepaid envelope. If you sign and return your proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted FOR the proposal to approve the Share Issuance Proposal, FOR the proposal to approve the Merger-Related Compensation Proposal and FOR the adjournment proposal.

If you hold your shares in street name, your bank, broker or other custodian will only be permitted to vote your shares if you instruct your bank, broker or other custodian how to vote. You should follow the procedures provided by your bank, broker or other custodian regarding the voting of your shares. If you do not instruct your bank, broker or other custodian how to vote your shares, your shares will not be voted and will have no effect on the vote count for the Share Issuance Proposal, the Merger-Related Compensation Proposal or the proposal to adjourn the special meeting.

**Revocation**

Any proxy given by a shareholder pursuant to this solicitation may be revoked at any time before the vote is taken at the special meeting in any of the following ways:

submitting a later proxy by telephone or through the Internet prior to [ ], [ ].m., Central Daylight time, on [ ], 2013,

filing with the Corporate Secretary of PMC Commercial, before the taking of the vote at the special meeting, a written notice of revocation bearing a later date than the proxy card,

duly executing a later dated proxy card relating to the same shares and delivering it to the Corporate Secretary of PMC Commercial before the taking of the vote at the special meeting, or

voting in person at the special meeting, although attendance at the special meeting will not by itself constitute a revocation of a proxy.

**Solicitation of Proxies; Costs**

PMC Commercial is soliciting proxies on behalf of the Board of Trust Managers. PMC Commercial will bear the costs of soliciting proxies. In addition to the solicitation of proxies by use of the mails, proxies may be solicited from shareholders by Trust Managers, officers and employees of PMC Commercial in person or by telephone, by facsimile, on the Internet or other appropriate means of communications. No additional compensation, except for reimbursement of reasonable out-of-pocket expenses, will be paid to Trust Managers, officers and employees of PMC Commercial in connection with this solicitation. PMC Commercial has retained [ ] to solicit, and for advice and assistance in connection with the solicitation of, proxies for the special meeting at a cost of \$[ ], including out-of-pocket expenses.

---

**Table of Contents**

**THE MERGER**

*This section and the sections entitled THE MERGER AGREEMENT, THE TERMS OF THE PMC COMMERCIAL PREFERRED SHARES, and THE REGISTRATION RIGHTS AND LOCKUP AGREEMENT; MASTER SERVICES AGREEMENT in this proxy statement/prospectus describe the material aspects of the Merger and related agreements. While PMC Commercial believes that this description covers the material terms of the Merger and related agreements, it may not contain all of the information that is important to you. You should read carefully this entire proxy statement/prospectus, including the Annexes attached to this proxy statement/prospectus and the other documents to which PMC Commercial has referred to or incorporated by reference herein. For a more detailed description of where you can find those other documents, please see the section entitled WHERE YOU CAN FIND MORE INFORMATION beginning on page 204 of this proxy statement/prospectus.*

**Background of the Merger**

From time to time, PMC Commercial's Board of Trust Managers, in consultation with its executive management, considered and reviewed alternative strategies for achieving PMC Commercial's business objectives and enhancing shareholder value, including, among others, potential strategic initiatives, strategic business combinations, business line expansion, joint ventures, property acquisitions and the acquisition of a private business.

In May 2011, PMC Commercial's former Chief Executive Officer and Chairman of the Board of Trust Managers and certain of his family members, including another Trust Manager of PMC Commercial (collectively, the Family Shareholders), received an unsolicited, non-binding indication of interest from a privately-owned manager of hedge and private equity funds, which together with its affiliates is referred to as Party A, to acquire approximately 1.3 million PMC Commercial Common Shares from the Family Shareholders for a purchase price of \$10.50 per share in cash. On June 2, 2011, PMC Commercial received a written presentation to the Board of Trust Managers from Party A together with a request to make an oral presentation to the Board of Trust Managers at the June 10, 2011 Board of Trust Managers meeting. The presentation at that meeting contemplated the purchase by Party A of 1.3 million PMC Commercial Common Shares from the Family Shareholders, the contribution by Party A to PMC Commercial of REIT-eligible assets valued by Party A at \$120 million in exchange for additional PMC Commercial Common Shares, the resignation of the two Trust Managers who were Family Shareholders and increasing the size of the Board of Trust Managers to seven members, and adding three representatives of Party A and one new independent member designated by Party A to the Board of Trust Managers.

Following discussions with PMC Commercial's legal counsel, Locke Lord LLP, in response to the receipt of Party A's request, as well as certain other inquiries that PMC Commercial had received during 2011 expressing a preliminary interest in potential strategic transactions, on June 23, 2011, PMC Commercial's audit committee engaged separate legal counsel to represent the independent Trust Managers.

On July 13, 2011, Nathan G. Cohen, PMC Commercial's lead independent Trust Manager, received a non-binding term sheet from Party A, which contemplated the purchase of PMC Commercial Common Shares from the Family Shareholders and (i) approval by the Board of Trust Managers of Party A as an Excepted Person (as defined in PMC Commercial's Declaration of Trust) so that PMC Commercial's 9.8% limitation on share ownership would not apply and Party A would be permitted to purchase up to 15% of the outstanding PMC Commercial Common Shares, (ii) the resignation of the two Trust Managers who were Family Shareholders, the increase in the size of the Board of Trust Managers from five to seven members, and the designation by Party A of four representatives of Party A to the Board of Trust Managers and the appointment of a representative of Party A as PMC Commercial's Chief Executive Officer, and (iii) the waiver of any provisions under the employment contracts of Jan F. Salit and Barry N. Berlin concerning severance and other change of control benefits triggered in connection with the transaction. Party A subsequently changed its proposal to designate two

**Table of Contents**

Trust Managers instead of four Trust Managers, thus eliminating the requirement that the size of the Board of Trust Managers be increased.

On August 18, 2011, the Board of Trust Managers formed a special committee of all of PMC Commercial's independent Trust Managers (the Special Committee) to consider and analyze Party A's proposal, as well as to engage, if deemed necessary by the Special Committee, a financial advisor and to consider and advise the full Board of Trust Managers as to whether the Special Committee believed PMC Commercial should pursue any strategic alternative that the financial advisor presented. On September 28, 2011, the Special Committee engaged a financial advisor, referred to as Advisor A. At the direction of the Special Committee, Advisor A contacted some potential strategic industry and financial partners, including certain parties that had previously expressed an interest directly to PMC Commercial or were referred to PMC Commercial, and solicited indications of interest in a strategic relationship or other transaction with PMC Commercial.

In connection with the multi-round process conducted by the Special Committee, referred to as the 2011 Process, Advisor A contacted 20 potential bidders, including four parties that had previously had discussions with PMC Commercial and/or made reverse inquiries, of which 12 parties executed confidentiality and standstill agreements. Seven preliminary bids were received based on public information (including a verbal indication from Party A). Six parties conducted due diligence and received access to non-public information regarding PMC Commercial through access to an online data room, discussions with executive management, and on-site visits to PMC Commercial's office in Dallas, Texas. Five updated non-binding bids were received (including a revised non-binding bid from Party A), of which one bid constituted a change of control transaction and the remaining four bids constituted minority stake investments for primary or secondary PMC Commercial Common Shares.

The Special Committee and its advisors evaluated the indications of interest received and concluded that it was in the best interest of PMC Commercial to negotiate with one interested strategic party, referred to as Party B, to the exclusion of Party A and all other parties. The Special Committee and its advisors entered into extensive discussions and due diligence with Party B. The Special Committee ultimately determined that it was in the best interest of PMC Commercial's shareholders to terminate the discussions with Party B. The Special Committee and the Board of Trust Managers further determined in connection with the strategic alternatives evaluation process that at that time it was in the best interest of PMC Commercial's shareholders to continue to operate PMC Commercial as an independent entity and focus aggressively on developing an expanded business plan to improve operating performance and long-term growth potential. On October 26, 2012, PMC Commercial announced that upon the recommendation of the Special Committee, the Board of Trust Managers had suspended the formal strategic alternatives process and that the Special Committee had concluded the engagement of Advisor A and was preparing to dissolve.

On October 26, 2012, PMC Commercial further announced that it had effected a change in its Chief Executive Officer and had promoted Jan F. Salit to Chief Executive Officer. Mr. Salit was also appointed to the Board of Trust Managers and elected as the Chairman of the Board of Trust Managers.

In connection with those events, PMC Commercial also announced that it intended to embark on the pursuit of strategic growth initiatives to build shareholder value, including evaluating complementary lines of business and other non-lending real estate-related investments that PMC Commercial believed would be accretive to value and provide a stronger growth platform. PMC Commercial stated that it would be committed to executing its core business plan while considering and implementing strategies to maximize shareholder value.

On January 18, 2013, PMC Commercial and Sandler O'Neill + Partners, L.P., referred to as Sandler O'Neill or Advisor B, executed an engagement letter providing for general financial advisory services to PMC Commercial in an effort to assist it with expansion of business lines, internal growth initiatives, increased focus on loan origination, and the identification of any potential strategic combinations for PMC Commercial.

## **Table of Contents**

Following the execution of this engagement letter with Sandler O'Neill, in early 2013 PMC Commercial continued to evaluate complementary lines of business and other non-lending real estate-related investments that executive management believed would provide a stronger growth platform. In pursuit of these initiatives, Messrs. Salit and Berlin had informal preliminary discussions with various market participants introduced to them by Sandler O'Neill. However, these discussions were of a more general nature and were not designed to, nor did they result in, the receipt of a written offer or indication of interest with respect to a change of control transaction.

During the week of January 28, 2013, Mr. Salit received an unsolicited call from an individual affiliated with Orchard First Source Asset Management, LLC, stating that Richard Ressler, the founder and President of Orchard Capital Corp., was interested in speaking to him about a potential transaction between PMC Commercial and CIM REIT, a large, private externally managed REIT.

On February 14, 2013, Messrs. Salit and Ressler met over lunch in Addison, Texas. Mr. Ressler proposed a merger between PMC Commercial and a subsidiary of CIM REIT, with PMC Commercial being the surviving entity. At this meeting, Mr. Ressler proposed consideration to each of PMC Commercial's existing shareholders of a \$5.00 per share special dividend and the continued ownership of the PMC Commercial Common Shares that such shareholder owned before the Merger. This was a preliminary meeting to determine whether PMC Commercial had any interest in discussing a potential strategic transaction with CIM REIT. No negotiations took place at this meeting.

On February 19, 2013, Messrs. Salit and Berlin held a telephone conference with the Board of Trust Managers to advise the Board of Trust Managers of the meeting between Messrs. Salit and Ressler, discuss the opportunity proposed by Mr. Ressler, and determine whether the members of the Board of Trust Managers were interested in having PMC Commercial executive management continue the discussions with CIM REIT and pursue the proposed opportunity. The members of the Board of Trust Managers indicated that they were interested in having PMC Commercial executive management continue discussions with CIM REIT and authorized executive management to proceed accordingly.

On February 28, 2013, PMC Commercial received via email from CIM REIT (i) a draft of a non-binding term sheet, referred to as the Term Sheet, outlining CIM REIT's proposed offer providing for a \$5.00 per share special dividend to PMC Commercial's existing shareholders and the issuance of PMC Commercial shares to the CIM Parties such that the CIM Parties would beneficially own 97.8% of the issued and outstanding PMC Commercial Common Shares immediately after the Merger and shareholders of PMC Commercial prior to the Merger, on an aggregate basis, would own 2.2% of the issued and outstanding PMC Commercial Common Shares immediately after the Merger, (ii) a presentation providing an overview of CIM REIT, and (iii) a presentation providing a summary of each asset in CIM Urban's portfolio. PMC Commercial also received CIM Urban's audited financial statements for the year ending December 31, 2011, which included its financial statements for 2010 and 2009.

On March 4, 2013, a telephone conference was held among representatives of Sandler O'Neill, CIM REIT and Messrs. Salit and Berlin to discuss generally the proposed terms set forth in the draft Term Sheet, including CIM REIT's requirement that the existing investment management agreement between the Advisor and CIM Urban would remain in place and CIM Urban would be externally managed on a post-closing basis, and to obtain additional information about CIM REIT and CIM Urban.

On March 6, 2013, a special telephonic meeting of the Board of Trust Managers was held for the purpose of updating and discussing with the Board of Trust Managers the proposed terms of the draft Term Sheet and the related information about CIM REIT and CIM Urban, as well as continuing discussions that had taken place between and among Messrs. Salit and Berlin and CIM REIT and Sandler O'Neill. The Board of Trust Managers was advised that the existing investment management agreement between the Advisor and CIM Urban would remain in place and CIM Urban would be externally managed on a post-closing basis. The Board of Trust



## Table of Contents

Managers was advised that this point was non-negotiable. After discussion, the Board of Trust Managers authorized executive management to proceed with discussions with CIM REIT, authorized the execution of a confidentiality and non-disclosure agreement with CIM REIT, and authorized the negotiation of the draft Term Sheet. The Board of Trust Managers further authorized using Sandler O Neill to assist in the evaluation and negotiation of the Term Sheet. Executive management was to obtain further authorization from the Board of Trust Managers prior to finalizing and executing the Term Sheet.

On March 8, 2013, PMC Commercial and CIM REIT entered into a confidentiality and non-disclosure agreement.

On March 14, 2013, at PMC Commercial's regularly scheduled Board of Trust Managers meeting, representatives of Sandler O Neill were present and made a presentation to the Board of Trust Managers, including an overview of the then current REIT market, an overview of CIM REIT and CIM Urban and an overview of the terms then under discussion in the Term Sheet. Following such presentation and discussion, members of the Board of Trust Managers authorized PMC Commercial's executive management to continue to negotiate the Term Sheet with CIM REIT.

On March 21, 2013, CIM REIT provided access to Sandler O Neill to CIM REIT's online data room. PMC Commercial and Locke Lord were also subsequently provided access to this online data room.

On March 30, 2013, PMC Commercial and Sandler O Neill executed a new engagement letter providing for specific advisory services to be provided by Sandler O Neill in connection with the proposed transaction with CIM REIT.

On April 5, 2013, Sandler O Neill provided CIM REIT comments to the Term Sheet on behalf of PMC Commercial, proposing to increase the \$5.00 per share special dividend payable to PMC Commercial's existing shareholders to \$5.50 per share and to change certain other terms favorable to PMC Commercial, including reducing the number of PMC Commercial shares that would be issued to the CIM Parties in connection with the Merger such that the shareholders of PMC Commercial prior to the Merger, on an aggregate basis, would own 2.9% of the issued and outstanding PMC Commercial Common Shares immediately after the Merger rather than the 2.2% ownership that had been proposed by CIM REIT.

During the week of April 8, 2013, representatives of PMC Commercial, Locke Lord, Sandler O Neill, CIM REIT and CIM REIT's legal counsel, DLA Piper LLP (US), negotiated the Term Sheet.

Messrs. Salit and Berlin and representatives of Sandler O Neill met with representatives of CIM REIT in Los Angeles, California on April 10 and 11, 2013 and visited certain properties owned by CIM Urban and other CIM Group funds. At various times, representatives of Sandler O Neill visited properties owned by CIM Urban located in Dallas, Texas, Washington, D.C., Oakland, San Francisco and Sacramento, California and New York, New York.

On April 12, 2013, a telephonic conference was held with the Board of Trust Managers for the purpose of updating the Board of Trust Managers about executive management's trip to Los Angeles, the meetings with representatives of CIM REIT and Sandler O Neill, and the status of the negotiations of the Term Sheet. The Board of Trust Managers was advised about the negotiations related to price and in particular, of CIM REIT's agreement to increase the amount of the special cash dividend to be paid to PMC Commercial's existing shareholders from \$5.00 to \$5.50 per share. However, the number of PMC Commercial Common Shares to be issued to the CIM Parties in connection with the Merger would remain the same such that the shareholders of PMC Commercial prior to the Merger, on an aggregate basis, would own 2.2% of the PMC Commercial Common Shares immediately after the Merger. Representatives of Sandler O Neill discussed certain aspects of the proposed transaction and the anticipated strategy of the combined company on a post-closing basis, as well as anticipated value and dividend yield. Representatives of Locke Lord and Sandler O Neill discussed execution risks related to the transaction and the magnitude of expenses that could be incurred. They further discussed other proposed changes relating to the Term Sheet, including the addition of a go-shop provision, CIM REIT's request for exclusivity, and the proposed addition of a lockup period and registration rights to be granted to holders of the

**Table of Contents**

PMC Commercial Common Shares and PMC Commercial Preferred Shares that would be issued in connection with the proposed Merger. After further discussion, the Board of Trust Managers approved the changes in the proposed transaction terms and authorized executive management to execute the Term Sheet in form and substance as modified consistent with the proposed changes, subject to any further substantive changes being approved by the Board of Trust Managers.

Later that day and into the evening of April 12, 2013, representatives of PMC Commercial, Locke Lord, Sandler O'Neill, CIM REIT and DLA Piper LLP (US) continued to negotiate and finalize the terms of the Term Sheet. That evening, PMC Commercial and CIM REIT executed the Term Sheet.

On April 16, 2013, a special telephonic meeting of the Board of Trust Managers was held for the purpose of updating the Board of Trust Managers on the status of the proposed transaction with CIM REIT, including the fact that the Term Sheet had been executed with no further substantive changes and that PMC Commercial would begin its formal due diligence process.

During the period of April 17 through April 29, 2013, the CIM REIT due diligence team conducted on-site due diligence at PMC Commercial's offices.

On April 29, 2013, PMC Commercial received the initial draft of the Merger Agreement from DLA Piper LLP (US). During the period from April 29 through July 7, 2013, the parties and their respective representatives negotiated the terms of the Merger Agreement and various ancillary agreements. In addition, representatives acting on behalf of PMC Commercial conducted legal and financial due diligence.

On May 7, 2013, the Board of Trust Managers held a special telephonic meeting for the purpose of updating the Board of Trust Managers on the status of the proposed transaction and authorizing the execution of a modification to the Term Sheet to provide for an agreement by CIM REIT to reimburse PMC Commercial for certain legal and due diligence expenses that would be incurred in connection with the proposed transaction in advance of the execution of any definitive agreement.

On June 3, 2013, a special telephonic meeting of the Board of Trust Managers was held for the purpose of updating the Board of Trust Managers on the status of and proposed changes to the terms of the transaction. Members of executive management and representatives of Sandler O'Neill gave the Board of Trust Managers a detailed update on the status of the negotiations regarding, and the contemplated timing of, the proposed transaction. Locke Lord provided the Board of Trust Managers with a detailed summary of the materials prepared and distributed by Locke Lord to the Board of Trust Managers prior to the meeting regarding the fiduciary duties of the Board of Trust Managers in connection with a sale of control transaction, and specifically with respect to the proposed transaction. Locke Lord and Sandler O'Neill provided the Board of Trust Managers with an overview of, among other things, the proposed terms of the go-shop process, including the reduced termination fee relating thereto, and the lockup period and the registration rights. After discussion, the Board of Trust Managers approved the proposed terms of the go-shop, lockup and registration rights. The Board of Trust Managers was further updated regarding the status and timing of the ongoing due diligence on CIM REIT and CIM Urban that was being performed by representatives acting on behalf of PMC Commercial.

On June 4, 2013, the parties executed a modified Term Sheet providing for the reimbursement of certain legal and due diligence expenses to PMC Commercial and the other modified terms approved by the Board of Trust Managers.

On June 14, 2013, PMC Commercial held a regular meeting of the Board of Trust Managers. Representatives of Locke Lord and Sandler O'Neill participated in the meeting and together with Messrs. Salit and Berlin, provided the Board of Trust Managers with information obtained through the due diligence process about CIM REIT, CIM Urban and the CIM Urban property portfolio and provided an update on the status of the proposed transaction and changes in the terms of the proposed transaction since the last meeting of the Board of Trust Managers.

**Table of Contents**

On July 2, 2013, PMC Commercial completed its due diligence work. Also on that date, Locke Lord distributed packages to each of the members of the Board of Trust Managers that included copies of the near-final versions of the Merger Agreement and other transaction documents, a detailed summary of the Merger Agreement and other transaction documents prepared by Locke Lord, a due diligence report prepared by a third party advisor, Sandler O'Neill's financial analysis and various other materials.

On July 5, 2013, the Board of Trust Managers held a special meeting to definitively evaluate the proposed transaction. At the meeting, PMC Commercial's executive management first summarized the recent material changes to the terms of the transaction. Then, representatives of Locke Lord made a presentation to the Board of Trust Managers regarding (i) the principal terms and conditions of the Merger Agreement, including the go-shop period, the no-shop terms and termination expenses, and (ii) the ancillary documents, including the Statement of Designation, Registration Rights and Lockup Agreement and Master Services Agreement. Also at the meeting, representatives of a third party advisor summarized the results of its due diligence report, a form of which had been provided to the Board of Trust Managers prior to the meeting. Representatives of Sandler O'Neill reviewed with the Board of Trust Managers Sandler O'Neill's financial analysis and then delivered Sandler O'Neill's oral opinion, which opinion was subsequently confirmed in writing, to the effect that, based on and subject to the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken, the Merger Consideration is fair, from a financial point of view, to PMC Commercial and its shareholders. Following these presentations and discussions, and other discussions and deliberations by the Board of Trust Managers concerning, among other things, the matters described below under "Reasons of PMC Commercial's Board of Trust Managers for the Merger", the Board of Trust Managers unanimously (i) determined that the Merger Agreement and the Merger, including the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares as provided in the Merger Agreement, are advisable, fair to and in the best interests of PMC Commercial and its shareholders, (ii) approved the Merger Agreement and the annexes attached thereto, as well as the Merger and the issuance of the PMC Commercial Common Shares and the PMC Commercial Preferred Shares to the CIM Parties, as provided in the Merger Agreement, (iii) recommended that PMC Commercial's shareholders approve the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares as provided in the Merger Agreement and directed that the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares as provided in the Merger Agreement be submitted to PMC Commercial's shareholders for their approval and (iv) authorized PMC Commercial's executive management, in concert with Sandler O'Neill and Locke Lord, to manage, direct, supervise and advise upon the PMC Commercial go-shop process, as permitted under the terms of the Merger Agreement.

The Merger Agreement and related documents were finalized on Sunday, July 7, 2013, and were executed and delivered by PMC Commercial, CIM REIT and their respective merger subsidiaries as of July 8, 2013. On Monday morning, July 8, 2013, prior to the opening of trading of PMC Commercial Common Shares on the NYSE MKT, the parties issued a press release announcing the execution of the Merger Agreement and the commencement of the go-shop process during which proposals from third parties would be actively solicited.

Pursuant to the go-shop provisions of the Merger Agreement, at the direction of the Board of Trust Managers, representatives of Sandler O'Neill immediately began contacting prospective strategic and financial bidders that were believed to be potentially interested in, and capable of, consummating an acquisition of all or part of PMC Commercial. During the go-shop period, 36 parties were contacted. The 36 parties contacted included public REITs, specialty lenders, hedge funds/private equity firms, some private companies that have expressed an interest in becoming public and a few third party intermediaries.

The parties contacted included six parties, including Party A and Party B, that had submitted nonbinding proposals or indications of interest in the 2011 Process. Eighteen parties expressly declined and one party entered into a confidentiality agreement with PMC Commercial, but later indicated, prior to submitting an initial indication of interest, that it would not be making a proposal to acquire PMC Commercial. The Go-Shop Period ended at 11:59 p.m. (Eastern time) on August 6, 2013.

## **Table of Contents**

### **Reasons of CIM REIT for the Merger**

CIM REIT's director approved the Merger Agreement and the Merger. CIM REIT is proposing the Merger:

to provide CIM Urban with a flexible capital structure with which to efficiently pursue its business strategy of owning and growing its portfolio of substantially stabilized assets in submarkets in which CIM Group's opportunistic funds have targeted investment;

to allow potential investors who were previously unable to invest in CIM REIT, due to an inability to meet the minimum capital commitment requirements, to own interests in CIM Urban assets;

to allow potential investors who were previously unable to invest in CIM REIT, due to a restriction a potential investor may have faced regarding making investments in non-public vehicles, to own interests in CIM Urban assets;

to allow existing investors in CIM REIT who wish to continue owning interests in CIM Urban assets to do so through a publicly-traded, perpetual life, liquid entity; and

as an economically efficient path to liquidity, over time, for existing investors in CIM REIT through a public vehicle.

### **Reasons of PMC Commercial's Board of Trust Managers for the Merger**

The Board of Trust Managers has unanimously determined that the Merger Agreement and the Merger, including the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares as provided in the Merger Agreement, are advisable, fair to and in the best interests of PMC Commercial and its shareholders. The decision of the Board of Trust Managers to approve into the Merger Agreement and the annexes attached thereto was the result of careful consideration by the Board of Trust Managers of numerous factors, including the following material factors:

PMC Commercial is not a diversified company as it is dependent on its SBA 7(a) mortgage loan product that is made to borrowers primarily in the limited service hospitality industry. Following the Merger, PMC Commercial's business will be diversified by product type, industry, tenant and asset class.

PMC Commercial is a microcap company with a limited ability to grow due to its limited ability to obtain leverage. Prior to 2005, PMC Commercial's primary source of long-term funds was structured loan sale transactions and the issuance of trust preferred securities. The limited market for structured loan sales of commercial loans has not been available to PMC Commercial and there is no current market for the issuance of trust preferred securities. The unavailability of these markets combined with the limited of access to other sources of capital has constrained PMC Commercial's ability to grow. It is expected that the Merger will provide PMC Commercial with the ability to obtain capital on more attractive terms than are currently available and the opportunity to participate in the enhanced future growth potential of the combined company, including any potential growth as a result of its increased size.

The Merger provides PMC Commercial with the ability to increase significantly its size in the short term rather than building over time in an effort to achieve a critical asset mass.

Although property REITs usually pay shareholders a lower yield than mortgage REITs, PMC Commercial believes over time property REITs experience higher price appreciation on average than do mortgage REITs.

PMC Commercial s Common Shares have historically traded at a discount to the book value per PMC Commercial Common Share. The Board of Trust Managers believes that the Merger (including payment of the Special Dividend) will be accretive to the value of PMC Commercial s Common Shares and provide a premium to the then-current market price of PMC Commercial Common Shares.

**Table of Contents**

The Board of Trust Managers believes that the Merger is more favorable to PMC Commercial shareholders than remaining independent, liquidating, or the other strategic alternatives available to PMC Commercial, which belief was formed based on a number of factors, including its evaluation of potential strategic alternatives available to PMC Commercial and consideration of the bids submitted during the third party solicitation process with respect to a possible business combination transaction in 2011 and 2012, as well as discussions with various market participants in early 2013 and the Go-Shop Period in 2013 (see the section titled Background of the Merger beginning on page 64).

The Board of Trust Managers believes that PMC Commercial's shareholders will likely benefit, over time, from the enhanced liquidity that should result from a much greater number of PMC Commercial Common Shares being held by a broader shareholder base.

PMC Commercial is a small public company that must bear the substantial fixed costs associated with being a public company, and the Merger will result in a substantially larger combined company with a larger base of business over which these costs can be spread, thus reducing these costs as a percentage of revenue.

The Board of Trust Managers believes that CIM Group's understanding of the business, operational and financial aspects of operating a real estate business will accrue to the benefit of PMC Commercial and its shareholders.

The Merger will provide PMC Commercial with the opportunity to invest in a portfolio of high quality performing real property assets that is managed by an experienced senior management team.

The Board of Trust Managers expects that PMC Commercial's lending operations and management team will continue and it will have enhanced opportunities for liquidity, growth and an expanded business model and platform.

The Merger Agreement provisions permit PMC Commercial to enter into or participate in discussions or negotiations with a third party that makes an unsolicited written acquisition proposal to engage in a business combination or similar transaction, if the Board of Trust Managers determines in good faith, after consultation with outside legal counsel, that the failure to do so would reasonably be expected to be inconsistent with its fiduciary duties and that the third party proposal, after consultation with outside legal counsel and its financial advisor, constitutes a superior proposal or could reasonably be expected to result in a superior proposal (see the section titled THE MERGER AGREEMENT Acquisition Proposals Unsolicited Offers beginning on page 95).

The opinion of Sandler O'Neill, dated July 8, 2013, to the Board of Trust Managers, as to the fairness, from a financial point of view, of the Merger Consideration to PMC Commercial and PMC Commercial's shareholders, which opinion was based on and subject to the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken as more fully described below in the section Opinion of PMC Commercial's Financial Advisor beginning on page 73.

The Board of Trust Managers also considered a variety of risks and other potentially negative factors concerning the Merger Agreement and the Merger. These factors included:

PMC Commercial shareholders will experience significant immediate dilution in percentage ownership and effective voting power;

the market value for PMC Commercial Common Shares following the Merger may be adversely impacted by the overhang of shares held by the CIM Parties and by the subsequent public sale or distribution of such shares;

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

the fact that almost all of the business operations and assets of PMC Commercial after the Merger will be externally managed by the Manager, the Advisor and their affiliates, which will subject PMC Commercial to certain expenses and conflicts of interest;

**Table of Contents**

the Board of Trust Managers will initially include a majority of Trust Managers affiliated with the Advisor, and CIM REIT will after the Merger have effective control over the outcome of all actions requiring PMC Commercial shareholder approval;

after the Merger, the CIM Parties will control the vote required for conversion of the PMC Commercial Preferred Shares, which if not timely converted could materially adversely affect the PMC Commercial Common Shares;

the termination fee of \$4.0 million and the expense reimbursement of up to \$700,000 (exclusive of expenses incurred by PMC Commercial prior to the execution of the Merger Agreement and reimbursed by CIM REIT or its affiliates) to be paid to CIM REIT if the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement may discourage other parties that may otherwise have an interest in a business combination with, or an acquisition of, PMC Commercial (see the section entitled "The Merger Agreement - Termination Fee and Expenses" beginning on page 99);

the terms of the Merger Agreement placing limitations on the ability of PMC Commercial to solicit, initiate, encourage or knowingly facilitate any inquiry or offer relating to an acquisition proposal, and to furnish non-public information to, or engage in discussions or negotiations with, a third party relating to an acquisition proposal (see the section entitled "The Merger Agreement - Acquisition Proposals - No-Shop Period" beginning on page 94);

the possibility that the Merger may not be completed, or that completion may be unduly delayed, including because PMC Commercial shareholders may not approve the Merger (see the section entitled "The Merger Agreement - Conditions to Complete the Merger" beginning on page 95);

the risk that failure to complete the Merger could negatively affect liquidity alternatives available to PMC Commercial, the market value of PMC Commercial Common Shares, and PMC Commercial's operating results, particularly in light of the costs incurred in connection with the Merger;

certain of PMC Commercial's Trust Managers and executive officers after the Merger may face conflicts of interest related to positions they hold with the Advisor, CIM Group and their affiliates, which could result in decisions that are not in the best interests of PMC Commercial's shareholders;

the incremental costs associated with bringing CIM Urban into compliance with the rules and regulations applicable to publicly-traded companies;

the substantial costs to be incurred in connection with the Merger and the expenses arising from the Merger;

the restrictions on the conduct of PMC Commercial's business between the date of the Merger Agreement and the date of the closing of the Merger;

the potential risk of diverting management focus and resources from operational matters and other strategic opportunities while working to implement the Merger;

the possible disruption to PMC Commercial's and CIM REIT's business that may result from the announcement of the Merger; and



## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

other matters described under the section RISK FACTORS .

The Board of Trust Managers also considered the interests that certain Trust Managers and executive officers of PMC Commercial may have with respect to the Merger in addition to their interests as shareholders of PMC Commercial generally (see the section entitled Interests of PMC Commercial s Trust Managers and Executive Officers in the Merger beginning on page 79 of this proxy statement/prospectus). Although the foregoing discussion sets forth the material factors considered by the Board of Trust Managers in reaching its recommendation that PMC shareholders approve the Share Issuance Proposal, it may not include all of the factors considered by the Board of Trust Managers, and each Trust Manager may have considered different

---

## Table of Contents

factors or given different weights to different factors. In view of the variety of factors and the amount of information considered, the Board of Trust Managers did not find it practicable to, and did not, make specific assessments of, quantify or otherwise assign relative weights to the specific factors considered in reaching its recommendation. The Board of Trust Managers realized that there can be no assurance about future results, including results expected or considered in the factors above. However, the Board of Trust Managers concluded that the potential positive factors described above significantly outweighed the neutral and negative factors described above. The recommendation was made after consideration of all of the factors as a whole.

This explanation of the reasoning of the Board of Trust Managers and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed in the section entitled "Cautionary Statement Concerning Forward-Looking Statements."

### **Recommendation of PMC Commercial's Board of Trust Managers**

After careful consideration, for the reasons set forth above, the Board of Trust Managers has unanimously (i) determined that the Merger Agreement and the Merger, including the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares as provided in the Merger Agreement, are advisable, fair to and in the best interests of PMC Commercial and its shareholders, and (ii) approved the Merger Agreement and the annexes attached thereto, as well as the Merger and the issuance of the PMC Commercial Common Shares and the PMC Commercial Preferred Shares to the CIM Parties, as provided in the Merger Agreement. **The Board of Trust Managers unanimously recommends that you vote FOR the approval of the Share Issuance Proposal and FOR adjournment of the special meeting, if necessary or appropriate, for the purpose of soliciting additional votes for the approval of the Share Issuance Proposal.**

### **Opinion of PMC Commercial's Financial Advisor**

By letter dated March 30, 2013, Sandler O'Neill was engaged by the Board of Trust Managers to provide certain financial advisory services, including rendering an opinion to the Board of Trust Managers in connection with the Board of Trust Managers' evaluation of a proposed business combination transaction, such as the Merger. At the Board of Trust Managers' July 5, 2013 meeting, Sandler O'Neill delivered to the Board of Trust Managers its oral opinion, which was subsequently confirmed in writing, that the Merger Consideration was fair to PMC Commercial and the holders of PMC Commercial Common Shares from a financial point of view. The full text of Sandler O'Neill's written opinion is attached as Annex E to this proxy statement/prospectus. Sandler O'Neill's opinion is directed only to the fairness, from a financial point of view, of the Merger Consideration to PMC Commercial and the holders of PMC Commercial Common Shares, and does not address the underlying business decision of PMC Commercial to engage in the Merger, the relative merits of the Merger as compared to any other alternative business strategies that might exist for PMC Commercial or the effect of any other transaction in which PMC Commercial might engage.

Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions and REITs. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of REITs and their securities in connection with mergers and acquisitions and other corporate transactions. Sandler O'Neill was selected by the Board of Trust Managers based on Sandler O'Neill's qualifications, expertise and reputation.

Sandler O'Neill acted as financial advisor to the Board of Trust Managers in connection with the proposed Merger and participated in certain of the negotiations leading to the execution of the Merger Agreement. The Merger Consideration was determined through negotiations between PMC Commercial and CIM REIT, and was approved by the Board of Trust Managers. Sandler O'Neill's opinion was one of the many factors taken into consideration by the Board of Trust Managers in making its determination to approve the Merger Agreement and the Merger. The opinion rendered by Sandler O'Neill outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in presenting

**Table of Contents**

its opinion to the Board of Trust Managers. The description of Sandler O'Neill's opinion set forth below is qualified in its entirety by reference to the opinion. All shareholders of PMC Commercial are urged to read the entire opinion carefully. Sandler O'Neill's opinion only speaks as of the date of such opinion. In connection with rendering its opinion, Sandler O'Neill reviewed and considered, among other things:

internal financial projections for PMC Commercial for the years ending December 31, 2013 through December 31, 2015 as provided by senior management of PMC Commercial;

internal financial projections for CIM Urban for the years ending December 31, 2013 through December 31, 2014, as provided by senior management of CIM Group;

other financial information, such as major lease agreements, investment memoranda, capital expenditure budgets and straight-line lease analyses for CIM Urban, as provided by senior management of CIM Group;

the pro forma financial impact of the Merger on PMC Commercial, as a combined entity, based on assumptions relating to transaction expenses, projected increases in leverage, and other synergies as determined by the senior management of PMC Commercial and CIM Group;

a comparison of certain financial and other information for PMC Commercial and CIM Urban with similar publicly available information for certain other REITs, the securities of which are publicly-traded;

the terms and structures of other recent mergers and acquisition transactions in the REIT sector;

the current market environment generally and in the REIT sector in particular;

the current and historical market prices and trading activity for PMC Commercial Common Shares; and

such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O'Neill considered relevant.

In addition, Sandler O'Neill discussed with certain members of senior management of PMC Commercial the business, financial condition, results of operations and prospects of PMC Commercial and held similar discussions with senior management of CIM Group regarding the business, financial condition, results of operations and prospects of CIM Urban.

Sandler O'Neill has relied upon the accuracy and completeness of all of the financial and other information that was available to it from public sources, that was provided to it by PMC Commercial and CIM Group, or that was otherwise reviewed by it, and has assumed such accuracy and completeness for purposes of preparing its fairness opinion. The respective managements of PMC Commercial and CIM Group confirmed to Sandler O'Neill that such managements were not aware of any facts at the time of delivery of such information that would make any of such information inaccurate or misleading in any material respect. Sandler O'Neill did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of PMC Commercial and CIM REIT or any of their respective subsidiaries. Sandler O'Neill did not make an independent evaluation of the value of the assets to be contributed by CIM REIT to the combined entity.

With respect to the internal projections for PMC Commercial and CIM REIT, the respective senior managements of PMC Commercial and CIM Group confirmed to Sandler O'Neill that they reflected the best then currently available estimates and judgments of the future financial performance of PMC Commercial and CIM REIT, respectively. With respect to the transaction expenses, projected increases in leverage, and

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

other synergies determined by the senior managements of PMC Commercial and CIM Group, such managements confirmed that they reflected the best then currently available estimates of those managements. Sandler O'Neill expresses no opinion as to the earnings estimates, growth rates and other estimates or the assumptions on which they are based, as contained in such internal projections. Sandler O'Neill has assumed that there has been no

## **Table of Contents**

material change in the respective assets, financial condition, results of operations, business or prospects of PMC Commercial and CIM Urban since the date of the most recent financial data made available to Sandler O'Neill. Sandler O'Neill has also assumed in all respects material to its analysis that all of the representations and warranties contained in the Merger Agreement and all related agreements are true and correct in all material respects, that each party to the agreements will perform in all material respects all of the covenants required to be performed by such party under the agreements and that the conditions precedent in the agreements are not waived. Sandler O'Neill was not asked to and it does not express any opinion as to any of the legal, accounting and tax matters relating to the Merger and any other transactions contemplated in connection therewith.

In rendering its opinion, Sandler O'Neill performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler O'Neill, but is not a complete description of all the analyses underlying Sandler O'Neill's opinion. In order to fully understand the financial analyses, this information must be read together with the accompanying text. The tables presented below alone do not constitute a complete description of the financial analyses. The preparation of Sandler O'Neill's opinion was a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances of PMC Commercial and the Merger. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analysis must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O'Neill's comparative analysis described below is identical to PMC Commercial or CIM REIT and no transaction is identical. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the values of PMC Commercial and the companies to which it is being compared.

Sandler O'Neill assumed in all respects material to its analysis that the combined entity of PMC Commercial and CIM Urban (the Merged Company) would remain as a going concern for all periods relevant to its analysis, and that the Merged Company will qualify as a REIT in 2013 and 2014.

In performing its analyses, Sandler O'Neill made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of PMC Commercial, CIM REIT and Sandler O'Neill. The analysis performed by Sandler O'Neill is not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analyses solely for the purposes of rendering its opinion and its analyses was intended only for the purpose of presentation to the Board of Trust Managers in connection with the proposed Merger.

Sandler O'Neill's opinion was directed solely to the Board of Trust Managers for its consideration, together with a number of other factors. No other person or entity is entitled to rely on the Sandler O'Neill opinion, nor may it be used for any other purpose, without Sandler O'Neill's prior written consent. Sandler O'Neill's opinion does not address the underlying business decision of PMC Commercial to undertake the Merger and it is not and shall not be construed as an endorsement or recommendation of any aspect of the Merger to the holders of PMC Commercial Common Shares. Sandler O'Neill's opinion is not to be reproduced, nor quoted or referred to, in whole or in part, in any document without Sandler O'Neill's prior written consent, such consent not to be unreasonably withheld. Sandler O'Neill has consented to the inclusion of its opinion in this proxy statement/prospectus. Sandler O'Neill does not express any opinion as to the fairness of the amount or nature of the compensation to be received in the Merger by PMC Commercial's officers, directors, or employees, or class of such persons, relative to the compensation to be received in the Merger by any other shareholders of PMC Commercial, if any.

**Table of Contents*****Valuation Analysis******Stand Alone Comparable Company Analysis***

Sandler O'Neill reviewed and compared publicly available information for PMC Commercial's publicly-traded peers. For each of the selected companies, Sandler O'Neill calculated and compared certain financial information and various financial market multiples and ratios based on publicly available information obtained from filings made by the companies, Wall Street Equity Research, SNL Financial and Bloomberg. Although none of the following companies are identical or directly comparable to PMC Commercial, Sandler O'Neill chose the following selected companies for its analysis, in the exercise of its professional judgment and based on its knowledge of the industry, because each selected company had publicly-traded equity securities and was determined to be relevant for its analysis. Sandler O'Neill reviewed financial information of publicly available financial and stock market information of the following six publicly-traded REITs in the mortgage REIT sector:

Apollo Commercial Real Estate

Arbor Realty Trust, Inc.

BRT Realty Trust

Colony Financial, Inc.

RAIT Financial Trust

Resource Capital Corp.

***Stand Alone PMC Commercial Share Price and Trading Analysis***

Sandler O'Neill reviewed the history of the publicly reported trading prices of PMC Commercial Common Shares for the one-year, three-year and five-year periods ended June 26, 2013. Sandler O'Neill then compared the relationship between the movements in the price of PMC Commercial Common Shares from the beginning to the end of each such period against the movements in the prices of an index of the comparable company peer group, the SNL Finance REIT Index, and the Russell 2000 Index from the beginning to the end of each such period.

**PMC Commercial One-Year Stock Performance**

	<b>Beginning Index Value June 26, 2012</b>	<b>Ending Index Value June 26, 2013</b>
PMC	100.0%	109.0%
Peer Group Index	100.0%	112.2%
SNL Financial REIT Index	100.0%	86.7%
Russell 2000	100.0%	126.0%

**PMC Commercial Three-Year Stock Performance**

	<b>Beginning Index Value June 25, 2010</b>	<b>Ending Index Value June 26, 2013</b>
PMC	100.0%	100.6%
Peer Group Index	100.0%	104.3%
SNL Financial REIT Index	100.0%	87.4%
Russell 2000	100.0%	149.4%

**Table of Contents****PMC Commercial Five-Year Stock Performance**

	<b>Beginning Index Value June 26, 2008</b>	<b>Ending Index Value June 26, 2013</b>
PMC	100.0%	103.0%
Peer Group Index	100.0%	48.8%
SNL Financial REIT Index	100.0%	67.2%
Russell 2000	100.0%	138.0%

*Stand Alone Selected Precedent Transaction Analysis*

Sandler O'Neill reviewed financial data of the following six selected transactions that involved the specialty finance and mortgage REIT sector:

<b>Completion Date</b>	<b>Acquirer</b>	<b>Target</b>
June 13, 2013	Encore Capital Group, Inc.	Asset Acceptance Capital Corp.
May 23, 2013	Annaly Capital Management, Inc.	CreXus Investment Corp.
May 17, 2013	Varde Partners, Inc.	FirstCity Financial Corporation
April 2, 2013	BFC Financial Corporation	Bluegreen Corporation
February 14, 2013	Parthenon Capital Partners	White River Capital, Inc.
November 1, 2012	Aquiline Capital Partners LLC	First Investors Financial Services Group

Sandler O'Neill reviewed, among other things, equity values of the selected transactions, based on the purchase prices paid for the target company's equity, as multiples of, to the extent publicly available, trailing twelve months earnings and book value per share. Based on these analyses, the range observed for price to trailing earnings was 3.7x to 12.8x, and price to book value multiple of 0.98x to 1.52x. Financial data of the selected transactions were based on publicly available information.

Sandler O'Neill applied the range for the above price to trailing earnings analysis, which indicated an implied equity value range of \$18.7 million (\$1.76 per share) to \$64.3 million (\$6.06 per share) for PMC Commercial. In addition, Sandler O'Neill applied the range for the above price to book value multiple analysis, which indicated an implied equity value range of \$136.2 million (\$12.85 per share) to \$211.1 million (\$19.91 per share) for PMC Commercial. Financial data of PMC Commercial was based on historically available information included in PMC Commercial's 10-K and 10-Q filings, and excluded one-time charges for 2012.

*Stand Alone Discounted Cash Flow Analysis*

A discounted cash flow analysis estimates the present value of a company's equity value as a function of the company's estimated future cash flows over a period of several years. Sandler O'Neill performed a discounted cash flow analysis using financial projections prepared and provided to Sandler O'Neill by PMC Commercial's executive management for the years ending December 31, 2013 through December 31, 2015. Sandler O'Neill selected a terminal value for PMC Commercial by applying a range of earnings multiples of the selected comparable company peer group of PMC Commercial. For purposes of its analysis, Sandler O'Neill selected a reference range of discount rates of 9.0% to 12.0% based on the estimated weighted average cost of capital of PMC Commercial, which included consideration of current market data, historical rates of return for the companies analyzed in the comparable company analysis described above, market borrowing rates available to companies comparable to PMC Commercial, risks inherent in the industry, risks common to companies with comparable market capitalization and capital structures common to comparable companies. Sandler O'Neill applied these discount rates to the projected unlevered cash flows derived from PMC Commercial management's projections to determine the present value of PMC Commercial's projected cash flows. Sandler O'Neill subsequently divided these results by the number of outstanding shares of PMC Commercial to derive the implied per share equity value for PMC Commercial.



## **Table of Contents**

Based on the discount rate and other assumptions set forth above, the discounted cash flow analysis indicated an implied per share equity value reference range of \$6.82 per share to \$7.67 per share for PMC Commercial.

### *Merged Company Comparable Company Analysis*

Sandler O'Neill reviewed and compared publicly available information for Merged Company's publicly-traded peers in its analysis. For each of the selected companies, Sandler O'Neill calculated and compared certain financial information and various financial market multiples and ratios based on publicly available information obtained from filings made by the companies, Wall Street Equity Research, SNL Financial and Bloomberg. Although none of the following companies is identical or directly comparable to Merged Company, Sandler O'Neill chose the following selected comparable companies for its analysis, in the exercise of its professional judgment and based on its knowledge of the industry, because they had publicly-traded equity securities and were determined to be relevant for its analysis. Sandler O'Neill reviewed financial information of publicly available financial and stock market information of the following six publicly-traded property REITs:

Boston Properties

Brookfield Office Properties

CommonWealth REIT

Douglas Emmett, Inc.

Hudson Pacific Properties, Inc.

SL Green Realty Corp.

For the purposes of its analyses, Sandler O'Neill reviewed a number of financial metrics, including price as of July 1, 2013 as a multiple of estimated funds from operations, or FFO, and price as of July 1, 2013 as a multiple of estimated Adjusted FFO, or AFFO, for calendar year 2014. Based on these analyses, the range observed for price as a multiple of FFO was 8.6x to 18.9x and the range observed for price as a multiple of AFFO was 16.5x to 33.0x.

Sandler O'Neill's comparison of selected companies to Merged Company and analysis of the results of such comparisons was not purely mathematical, but instead necessarily involved complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the relative values of the selected companies and Merged Company.

Sandler O'Neill applied the 2014 FFO multiple range to Merged Company's 2014 FFO per share, which indicated an implied equity value range of \$2.57 per share to \$5.64 per share for Merged Company (which, together with the \$5.50 per share dividend payment to be paid shortly following the closing of the Merger, would indicate an implied equity value range of \$8.07 per share to \$11.14 per share). In addition, Sandler O'Neill applied the 2014 AFFO multiple range to Merged Company's 2014 AFFO per share, which indicated an implied equity value range of \$4.23 per share to \$8.39 per share for Merged Company (which, together with the \$5.50 per share dividend payment to be paid shortly following the closing of the Merger, would indicate an implied equity value range of \$9.73 per share to \$13.89 per share).

### *Merged Company Discounted Cash Flow Analysis*

A discounted cash flow analysis estimates the present value of a company's per share equity value as a function of the company's estimated future cash flows over a period of several years.

Sandler O'Neill performed a discounted cash flow analysis using financial projections prepared and provided to Sandler O'Neill by CIM Group's management for the years ending December 31, 2013 through



---

**Table of Contents**

December 31, 2014, and Sandler O'Neill utilized CIM Group's major lease agreements and investment memoranda, as well as general market statistics, to determine an estimated market growth rate for projections for 2015 through 2018. Sandler O'Neill selected a terminal value for Merged Company by applying a range of EBITDA multiples of the comparable companies of Merged Company. For purposes of its analysis, Sandler O'Neill selected a reference range of discount rates of 7.0% to 11.0% based on the estimated weighted average cost of capital of Merged Company, which included consideration of current market data, historical rates of return for the companies analyzed in the comparable company analysis described above, market borrowing rates available to companies comparable to Merged Company, risks inherent in the industry, risks common to companies with comparable market capitalization and capital structures common to comparable companies. Sandler O'Neill applied these discount rates to the projected unlevered cash flows to determine the present value of Merged Company's projected cash flows. Sandler O'Neill subsequently divided these results by the number of outstanding post-transaction PMC Commercial Common Shares (after giving effect to the conversion of PMC Commercial Preferred Shares) to derive the implied per share equity value for Merged Company.

Based on the discount rate and other assumptions set forth above, the discounted cash flow analysis indicated an implied per share equity value reference range of \$6.60 per share to \$7.78 per share for Merged Company (which, together with the \$5.50 per share dividend payment to be paid shortly following the closing of the Merger, would indicate an implied per share equity value reference range of \$12.10 per share to \$13.28 per share).

***General***

PMC Commercial agreed to pay Sandler O'Neill a transaction fee, which is contingent upon the closing of the Merger. PMC Commercial also agreed to pay Sandler O'Neill a fee of \$350,000 to render an opinion in connection with the Merger, which became due and payable in immediately available funds at the time such opinion was rendered and is creditable against the transaction fee. PMC Commercial also agreed to reimburse Sandler O'Neill for its expenses and to indemnify it against certain liabilities arising out of its engagement.

Sandler O'Neill may actively trade the debt and/or equity securities of PMC Commercial or its affiliates for its own accounts and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

During the last two years, Sandler O'Neill has not provided investment banking services to, or had any other material relationship with, PMC Commercial, CIM REIT, or their respective affiliates for which it received compensation, except that (1) on June 8, 2012 the Special Committee of the Board of Trust Managers retained Sandler O'Neill to provide financial advisory services, for which PMC Commercial paid Sandler O'Neill a fee of \$400,000, and (2) in January 2013 the Board of Trust Managers retained Sandler O'Neill to provide general financial advisory services, for which to date PMC Commercial has paid Sandler O'Neill \$50,000.

**Interests of PMC Commercial Trust Managers and Executive Officers in the Merger**

In addition to their interests in the Merger as shareholders, some of the PMC Commercial Trust Managers and executive officers have interests in the Merger that differ from, or are in addition to, the interests of other PMC Commercial shareholders. In considering the recommendation of the Board of Trust Managers to vote FOR the approval of the Share Issuance Proposal, the Board of Trust Managers was aware of, and considered the interests of, the PMC Commercial Trust Managers and executive officers in approving the Merger Agreement and the Merger, including the matters described below.

***Treatment of Equity Awards***

As provided in PMC Commercial's 2005 Equity Incentive Plan, at the effective time of the Merger, all existing share options to purchase PMC Commercial Common Shares will become fully exercisable and all

---

**Table of Contents**

existing restricted PMC Commercial Common Shares will no longer be subject to any forfeiture or vesting condition. The Merger Agreement further provides that, in connection with the declaration of the Special Dividend, the compensation committee of the Board of Trust Managers may adjust the exercise price per share under each share option to appropriately account for such dividend, provided that the adjustment does not exceed \$5.50 per share and in no event reduces the exercise price below \$0. None of the Trust Managers or executive officers hold any options to purchase shares of PMC Commercial Common Shares. However, Jan F. Salit and Barry N. Berlin each hold 3,333 restricted PMC Commercial Common Shares subject to vesting conditions that will accelerate at the effective time of the Merger.

***Executive Employment Agreements***

Each of Messrs. Salit and Berlin entered into executive employment agreements with PMC Commercial dated December 11, 2012 (the Executive Employment Agreements). These agreements provide benefits to the executives upon a termination of employment by PMC Commercial for any reason other than Cause or by the executive due to Constructive Discharge, in each case within 12 months following a Change in Control (each as defined in the Executive Employment Agreements) or, subject to certain conditions described below, prior to a Change in Control in contemplation of that Change in Control. The Merger would constitute a Change in Control under the Executive Employment Agreements.

For purposes of the Executive Employment Agreements: (a) Cause means (1) the intentional, unapproved material misuse of corporate funds, (2) professional incompetence or (3) willful neglect of duties or responsibilities or events described; and (b) Constructive Discharge means the occurrence of any of the following: (1) the executive's base salary is reduced below \$425,000 for Mr. Salit or \$350,000 for Mr. Berlin, (2) a material reduction in the executive's job function, authority, duties or responsibilities, or other similar change deteriorating the executive's working conditions that violates the spirit of the employment agreement, (3) a required relocation to a location more than 35 miles from the executive's job location at the time of the employment agreement's execution, or excessive travel in comparison to other executives in similar situations or (4) any breach of the employment agreement that is not cured within 14 days following a written notice to PMC Commercial describing the situation.

If (1) there is a Change in Control during the executive's employment period, and within 12 months following the Change in Control, PMC Commercial (or its successor) terminates the executive's employment without Cause as described above, (2) the executive terminates his employment due to Constructive Discharge as described above, (3) PMC Commercial terminates the executive's employment without Cause while PMC Commercial is negotiating a transaction that reasonably could result in a Change in Control or (4) PMC Commercial terminates the executive's employment without Cause and a Change in Control occurs within three (3) months following the date the executive is terminated, the executive is entitled to receive compensation equal to 2.99 times the average of the last three years' compensation paid. All amounts due to a Change in Control are payable to the executive in a lump sum cash payment in accordance with the terms of the employment agreement.

Following execution of the Merger Agreement, CIM REIT proposed to each of Messrs. Salit and Berlin that the terms of their employment agreements then in effect be amended to incentivize them to remain with PMC Commercial following consummation of the Merger. Following negotiations, Messrs. Salit and Berlin entered into amended and restated executive employment agreements (the Restated Executive Employment Agreements), which will become effective upon consummation of the Merger and replace their existing Executive Employment Agreements.

For purposes of the Restated Executive Employment Agreements, Cause means (1) the intentional, unapproved material misuse of corporate funds, (2) professional incompetence or (3) acts or omissions constituting gross negligence or willful misconduct of executive's obligations or otherwise relating to the business of PMC Commercial.

## **Table of Contents**

Under the Restated Executive Employment Agreements, if (1) in the case of Mr. Salit, the executive voluntarily resigns his employment no earlier than 12 months following the effective date of the agreement but no later than December 31, 2015 or, in the case of Mr. Berlin, the executive voluntarily resigns his employment on or before December 31, 2015 or (2) PMC Commercial terminates the executive's employment without Cause on or before December 31, 2015, the executive will be entitled to receive compensation equal to 2.99 times the average of the last three years' compensation calculated as of the termination date, based on the calculation methodology set forth in PMC Commercial's definitive proxy statement for its 2013 annual meeting; provided, however, that the amount of any annual equity awards included in such calculation shall be capped at \$25,000 per annum.

In addition, to the extent an executive is employed by PMC Commercial on January 1, 2016 and such executive is not entitled to any disability, death or severance payments under the Restated Executive Employment Agreement, the executive would receive, in the case of Mr. Salit, 300,000 restricted share awards (as defined in PMC Commercial's 2005 Equity Incentive Plan) and in the case of Mr. Berlin, 225,000 restricted share awards. Such restricted share awards would vest immediately upon grant.

### ***Employee Benefits***

The Merger Agreement provides that for one year following the effective date of the Merger, PMC Commercial will continue to provide PMC Commercial's employees (including its executive officers) compensation and employee benefits that are substantially comparable in value in the aggregate to those provided on July 8, 2013, the date of the Merger Agreement (excluding equity or equity awards compensation, defined benefit pension benefits, retiree medical benefits or transaction or retention bonuses).

### ***Indemnification***

PMC Commercial's Trust Managers and executive officers will have rights to indemnification and directors' and officers' liability insurance that will survive the Merger.

### **Advisory Vote on Merger-Related Compensation Proposal**

PMC Commercial is required pursuant to Section 14A of the Exchange Act to include in this proxy statement/prospectus a proposal with respect to a non-binding advisory vote on the compensation payable to each of its named executive officers, as determined in accordance with Item 402(t) of Regulation S-K, in connection with the proposed Merger, and PMC Commercial is therefore asking its shareholders to approve the following resolution:

RESOLVED, that the compensation that will or may become payable to the named executive officers of PMC Commercial in connection with the Merger, as disclosed pursuant to Item 402(t) of Regulation S-K and as set forth in this proposal titled "Advisory Vote on Merger-Related Compensation Proposal," is hereby approved.

Approval of the foregoing Merger-Related Compensation Proposal will require the affirmative vote of at least a majority of the shares that are present in person or by proxy at the special meeting. Abstentions will have the same effect as a vote against the Merger-Related Compensation Proposal. No broker non-votes will be cast at the special meeting, and therefore broker non-votes will have no effect on the vote count for the Merger-Related Compensation Proposal.

At the 2013 annual meeting of shareholders, PMC Commercial's shareholders approved the advisory vote on executive compensation, including the compensation set forth in the following table. The following table sets forth the amount of PMC Commercial's payment obligation if each of its named executive officers incurred a termination on December 31, 2012 as a result of the applicable scenario. All vacation days are assumed to have

**Table of Contents**

been taken, and all reasonable business expenses are assumed to have been previously reimbursed for purposes of the following table. Each of the amounts in the table is PMC Commercial's best estimate of the amounts that its executives would receive upon a termination or a change in control, but the precise amount would not be determinable until an actual termination occurred.

Name	Change in Control/			
	Death(1)	Disability(2)	Discharge(3)	Agreement(4)
Jan F. Salit	\$ 850,000	\$ 454,000	\$ 1,321,000	\$ 1,344,000
Barry N. Berlin	\$ 700,000	\$ 451,000	\$ 1,319,000	\$ 1,343,000

- (1) Amounts in this column approximate two times the annual base salary of each of the current named executive officers effective as of January 1, 2013.
- (2) Amounts in this column approximate the total amount of compensation earned by each of the current named executive officers with respect to the year ended December 31, 2012.
- (3) The amounts shown in this column are based upon the product of the three-year average total annual compensation and 2.99. Total annual compensation with respect to the calendar years ended December 31, 2012, 2011 and 2010 are reported under Executive Compensation in PMC Commercial's Definitive Proxy Statement on Schedule 14A filed on April 29, 2013.
- (4) Includes the compensation due for Constructive Discharge plus the accelerated vesting of the 3,333 unvested restricted shares held by each of Messrs. Salit and Berlin as of December 31, 2012 pursuant to PMC Commercial's 2005 Equity Incentive Plan upon a change in control transaction. Values were calculated based on a per share closing market price of \$7.10 on December 31, 2012.

PMC Commercial has entered into the Restated Executive Employment Agreements with Messrs. Salit and Berlin, each of which provide for double trigger severance payments and benefits that are only payable upon certain terminations of employment following the Merger. For more information relating to these agreements, see the section entitled THE MERGER Interests of PMC Commercial Trust Managers and Executive Officers in the Merger beginning on page 79. The information set forth in the table below describes only the compensation that may become payable to each PMC Commercial named executive officer pursuant to the Restated Executive Employment Agreements and that is based on or otherwise relates to the Merger, assuming the consummation of the Merger occurred on August 1, 2013 and the occurrence of a qualifying termination.

**Severance/Retention Compensation\***

Name	Cash(a) (\$)	Equity(b) (\$)
Jan F. Salit	\$ 1,245,067	\$ 1,500,000
Barry N. Berlin	\$ 1,243,299	\$ 1,125,000

- \* Each of Messrs. Salit and Berlin will, under the terms of his Restated Executive Employment Agreement, be entitled to receive the cash severance payment indicated in column (a) or the equity retention bonus indicated in column (b), but not both of such amounts.
- (a) Cash severance would be payable in a lump sum upon a qualifying termination, which means (i) with respect to Mr. Salit, a termination of Mr. Salit's employment by him for any reason no earlier than 12 months following the effective date of the Merger but no later than December 31, 2015 or by PMC Commercial without Cause on or before December 31, 2015 and (ii) with respect to Mr. Berlin, a termination of Mr. Berlin's employment by him for any reason or by PMC Commercial without Cause, in each case on or before December 31, 2015, subject, in each case, to the executive's timely execution of a general release of claims.
- In such an event, pursuant to the Restated Executive Employment Agreements, the executive would be entitled to receive compensation equal to 2.99 times the average of the last three years' compensation paid,



**Table of Contents**

calculated as of the termination date, based on the calculation methodology in PMC Commercial's most recent definitive proxy statement; provided, however, that the amount of any annual equity awards included in such calculation shall be capped at \$25,000 per annum. Such payment would be less applicable state and federal taxes and withholding and paid out in a lump sum on the 60th day following the executive's termination date.

(b) If an executive is employed by PMC Commercial on January 1, 2016 and such executive is not entitled to any disability, death or severance payments under his Restated Executive Employment Agreement, the executive would receive, in the case of Mr. Salit, 300,000 restricted share awards and in the case of Mr. Berlin, 225,000 restricted share awards, in each case as a retention bonus. Such restricted share awards would vest immediately upon grant. Values were calculated based on an assumed per share market closing price of \$5.00 on the closing of the Merger which is based on the pro forma closing price of \$10.50 less the Special Dividend. The actual value of the restricted shares on January 1, 2016 may vary from this assumed price based on, among other things, the actual financial position and results of operations of PMC Commercial.

**The Board of Trust Managers recommends a non-binding advisory vote FOR the foregoing Merger-Related Compensation Proposal.**

**Security Ownership of PMC Commercial's Board of Trust Managers and Executive Officers and Current Beneficial Owners****Trust Managers and Executive Officers**

The following table sets forth certain information regarding the beneficial ownership of PMC Commercial Common Shares as of August 1, 2013 by (1) all current Trust Managers, (2) each current named executive officer and (3) all current Trust Managers and current executive officers as a group. Unless otherwise indicated, the PMC Commercial Common Shares listed in the table are owned directly by the individual, or by both the individual and the individual's spouse. Except as otherwise noted, the individual had sole voting and investment power as to PMC Commercial Common Shares shown or, the voting power is shared with the individual's spouse. All individuals set forth below have the same principal business address as PMC Commercial.

Name	PMC Commercial Common Shares Owned Beneficially	Percent of PMC Commercial Common Shares Owned Beneficially
Jan F. Salit(1)	34,336	*
Barry N. Berlin(2)	37,710	*
Martha Rosemore Morrow(3)	360,377	3.4%
Barry A. Imber(4)	33,580	*
Nathan G. Cohen(5)	15,770	*
Trust Managers and Executive Officers as a group (5 persons)	481,773	4.5%

\* Less than 1%.

(1) Includes 612 shares held in an IRA and 3,333 restricted shares.

(2) Includes 211 shares held in the name of his child and 6,823 shares held jointly with his spouse and 3,333 restricted shares.

(3) Includes 77,495 shares held in an IRA, 14,171 shares held in a trust for the benefit of Dr. Morrow, 16,909 shares held individually. All remaining shares are held by a partnership of which Dr. Morrow is the sole manager.

(4) Includes 3,274 shares held in an IRA for the benefit of his child and 1,202 shares held in an IRA.

(5) Includes 1,700 shares held in the name of his spouse.



**Table of Contents****Beneficial Owners of More than 5% of the PMC Commercial Common Shares**

The following table sets forth certain information regarding the beneficial ownership of the PMC Commercial Common Shares as of August 1, 2013, by each person known by PMC Commercial to own beneficially more than 5% of the PMC Commercial Common Shares.

Name and Address of Beneficial Owner	PMC Commercial Common Shares Owned Beneficially	Percent of PMC Commercial Common Shares Owned Beneficially
REIT Redux LP(1)  14901 Quorum Drive  Suite 900  Dallas, Texas 75254	583,140	5.50%
Hoak Public Equities, L.P.(2)  3963 Maple Avenue  Suite 450  Dallas, Texas 75219	677,357	6.39%

- (1) On April 1, 2013, REIT Redux LP filed a Schedule 13D reporting beneficial ownership as of March 22, 2013, of 582,085 shares. On July 22, 2013 REIT Redux LP filed Amendment No. 3 to Schedule 13D reporting beneficial ownership as of July 18, 2013 of 583,140 shares. The securities reported on Amendment No. 3 to Schedule 13D are beneficially owned by eight reporting persons. According to Amendment No. 3 to Schedule 13D, there are no agreements between the reporting persons, legal or otherwise, concerning the voting or dispositive power at this time.
- (2) On April 16, 2013, Hoak Public Equities, L.P. filed a Schedule 13D reporting beneficial ownership as of April 12, 2013, of 545,000 shares. On August 1, 2013, Hoak Public Equities, L.P. filed Amendment No. 2 to Schedule 13D reporting beneficial ownership as of August 1, 2013 of 677,357 shares. The securities reported on Amendment No. 2 to Schedule 13D are beneficially owned by six reporting persons. According to Amendment No. 2 to Schedule 13D, the reporting persons have shared voting and dispositive power with respect to 531,000 shares. One reporting person has sole voting and dispositive power with respect to 146,357 shares.

**Listing of PMC Commercial Shares**

The PMC Commercial Common Shares are currently listed on the NYSE MKT under the symbol PCC. The Merger Agreement provides that a condition to completion of the Merger is that both the PMC Commercial Common Shares and PMC Commercial Preferred Shares must be approved for listing on a national securities exchange mutually acceptable to PMC Commercial and CIM REIT. PMC Commercial plans to prepare and submit a listing application to such a national securities exchange and, consistent with the terms of the Merger Agreement, use its commercially reasonable efforts to have such national securities exchange approve for listing the PMC Commercial Common Shares and PMC Commercial Preferred Shares, including the PMC Commercial Common Shares and PMC Commercial Preferred Shares to be issued in connection with the Merger and all PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares.

**Anticipated Distribution of PMC Commercial Shares Received in the Merger**

In accordance with the lockup provisions included in the Registration Rights and Lockup Agreement, the CIM Parties are restricted from offering, selling or otherwise disposing of the PMC Commercial Common Shares or PMC Commercial Preferred Shares issued in connection with the Merger in any public sale (as defined in the Registration Rights and Lockup Agreement) for a period of time following the closing of the Merger. The foregoing lockup provisions restrictions do not apply to private sales or transfers of such shares, provided that such transferred

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

shares shall be subject to the same lockup restrictions. See THE REGISTRATION RIGHTS AND LOCKUP AGREEMENT; MASTER SERVICES AGREEMENT The Registration Rights and Lockup Agreement beginning on page 103.

## **Table of Contents**

Simultaneously with the consummation of the Merger, CIM REIT will sell an aggregate of approximately 10,000 of the PMC Commercial Preferred Shares to be issued to CIM REIT pursuant to the terms of the Merger Agreement to approximately 100 employees of CIM Group and/or its affiliates and/or related parties of CIM REIT.

Each such employee or related party will pay CIM REIT \$35.00 per PMC Commercial Preferred Share (each such share is convertible into seven PMC Commercial Common Shares). CIM REIT may loan to each such employee or related party all or a portion of the purchase price payable by such employee or related party. Any such loans will mature on the one-year anniversary of the loan, subject to a one-year extension at the option of CIM REIT, and will bear interest at 2% per annum. Such loans will be full recourse and will be secured by a pledge of the underlying PMC Commercial Preferred Shares. See **PLAN OF DISTRIBUTION** beginning on page 203 of this proxy statement/prospectus.

In addition, the CIM Parties may distribute to their owners all or a portion of the PMC Commercial Common Shares to be issued to them under the terms of the Merger Agreement, including the PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares, provided that any such shares will continue to be subject to the lockup as provided in the Registration Rights and Lockup Agreement.

## **Post-Merger Shareholders Meeting**

If the Merger is consummated, PMC Commercial will hold another meeting of shareholders as soon as practicable thereafter to approve an increase in the number of authorized PMC Commercial Common Shares to one billion (thereby satisfying the condition for the automatic conversion into PMC Commercial Common Shares of the PMC Commercial Preferred Shares issued in connection with the Merger). At this meeting, PMC Commercial shareholders may also be asked to approve a reverse stock split of the outstanding PMC Commercial Common Shares and the Reincorporation of PMC Commercial from Texas to Maryland. Please see **STRATEGY OF PMC COMMERCIAL AFTER THE MERGER** The Reincorporation on page 182 of this proxy statement/prospectus.

## **Regulatory Approvals**

PMC Commercial and CIM REIT must obtain certain regulatory approvals, including approval by the SBA of those aspects of the Merger subject to its jurisdiction, before they can complete the Merger. In addition, any applicable waiting period (and any extension thereof applicable to the Merger under the HSR Act) shall have been terminated or shall have expired.

PMC Commercial cannot predict whether all required regulatory approvals for the Merger will be obtained, or whether any approvals will include conditions that may be detrimental to PMC Commercial or CIM REIT, or to the consummation of the Merger in accordance with the terms of the Merger Agreement.

## **Accounting Treatment**

CIM REIT is considered to be the acquirer for accounting purposes because it will obtain effective control of PMC Commercial. The Merger will constitute the acquisition of a business for purposes of ASC 805. As a result, PMC Commercial's assets and liabilities will be recorded at their fair values.

## **Voting Rights**

You are entitled to vote at the special meeting if you owned PMC Commercial Common Shares at the close of business on [ ], 2013, the record date for the special meeting, unless a new record date is fixed for any adjournment or postponement of the special meeting. As of the record date, there were [ ] PMC Commercial Common Shares issued and outstanding. The holder of each PMC Commercial Common Share outstanding on the record date is entitled to one vote per share.

The approval of the Share Issuance Proposal requires the affirmative vote of at least a majority of the shares present or represented by proxy at the special meeting.

## **Table of Contents**

### **THE MERGER AGREEMENT**

*The following is a summary of the material terms of the Merger Agreement. This summary does not purport to be complete and may not contain all of the information about the Merger Agreement that is important to you. The summary of the material terms of the Merger Agreement below and elsewhere in this proxy statement/prospectus is qualified in its entirety by reference to the Merger Agreement, a copy of which is attached to this proxy statement/prospectus as Annex A and is incorporated by reference into this proxy statement/prospectus. You are urged to read the Merger Agreement carefully and in its entirety because it, and not the description below or elsewhere in this proxy statement/prospectus, is the legal document that governs the Merger.*

*The Merger Agreement has been included in this proxy statement/prospectus to provide you with information regarding the terms of the Merger. It is not intended to provide you with any other factual or financial information about PMC Commercial, CIM REIT, CIM Urban or their respective affiliates or businesses. Information about PMC Commercial can be found elsewhere in this proxy statement/prospectus and in the other filings PMC Commercial makes with the SEC, which are available without charge at [www.sec.gov](http://www.sec.gov). See **WHERE YOU CAN FIND MORE INFORMATION** on page 204 of this proxy statement/prospectus.*

#### **The Merger**

The Merger Agreement provides for the merger of CIM Merger Sub with and into PMC Merger Sub. Upon completion of the Merger:

PMC Commercial will become the parent of CIM Urban and its subsidiaries; and

PMC Commercial will issue to the CIM Parties 22,000,003 PMC Commercial Common Shares and 65,028,571 PMC Commercial Preferred Shares.

Each PMC Commercial Common Shareholder of record on the last business day prior to consummation of the Merger will, pursuant to the declaration of the Board of Trust Managers, be entitled to receive the Special Dividend, comprised of a special dividend of \$5.50 per PMC Commercial Common Share plus that portion of PMC Commercial's regular quarterly dividend accrued through that day, payable on or prior to the tenth business day after consummation of the Merger. Each existing shareholder of PMC Commercial at the time of the Merger will continue to own the PMC Commercial Common Shares that such shareholder owned before the Merger.

#### **Effective Time of the Merger**

The Merger will become effective:

at such time as the certificate of merger has been filed with the Secretary of State of the State of Delaware, or

at such later time as PMC Commercial and CIM REIT shall agree and specify in the certificate of merger to be filed with the Secretary of State of the State of Delaware.

PMC Commercial and CIM REIT will cause the effective time of the Merger to occur on the closing date, which will occur no later than the second business day after satisfaction or waiver of the conditions described under **Conditions to Complete the Merger** beginning on page 95 (other than those conditions that by their terms are required to be satisfied or, if permissible, waived at the closing).

#### **Representations and Warranties**

The Merger Agreement contains representations and warranties of each of the parties to the Merger Agreement to the other parties. These representations and warranties were made only for the purposes of the



**Table of Contents**

Merger Agreement, have been qualified by confidential disclosures and were made for the purpose of allocating contractual risk between the parties to the Merger Agreement. The representations and warranties may be subject to standards of materiality applicable to the parties to the Merger Agreement that differ from the standards applicable to you or other investors. You should not rely on the representations and warranties contained in the Merger Agreement or any descriptions of such representations and warranties as characterizations of the actual state of facts or condition of PMC Commercial, CIM REIT, CIM Urban or any of their respective affiliates or businesses.

In the Merger Agreement, CIM REIT and CIM Merger Sub made representations and warranties to PMC Commercial relating to, among other things:

due organization, valid existence, good standing and power and authority to carry on its business as now being conducted;

its subsidiaries due incorporation or organization, valid existence, good standing and power and authority to carry on its business as now being conducted;

authority of CIM REIT and CIM Merger Sub to enter into the Merger Agreement and to complete the Merger and the other transactions contemplated by the Merger Agreement;

absence of conflicts with, violations of, or defaults under, its and its subsidiaries organizational documents, certain contracts applicable to it and its subsidiaries and applicable laws;

consents, approvals of, or registrations or filings with, governmental entities required in connection with executing and delivering the Merger Agreement or the consummation of the transactions contemplated by the Merger Agreement;

certain consolidated financial statements of CIM Urban;

absence of liabilities required to be reflected on a balance sheet by GAAP since December 31, 2012;

enforceability of the Merger Agreement against it;

absence of any CIM Material Adverse Change and certain other changes and events since December 31, 2012 through the date of the Merger Agreement;

absence of litigation or investigations against or affecting CIM Urban or its subsidiaries;

environmental matters affecting CIM Urban and its subsidiaries;

certain related party transactions;

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

ERISA and benefit plan rule compliance;

real property owned, leased or subleased by CIM Urban and its subsidiaries;

tax matters affecting CIM Urban and its subsidiaries;

any employment or severance contract requiring amounts payable upon a change of control to CIM Urban or its subsidiaries employees, officers or directors;

absence of any undisclosed broker or finder fees;

compliance with laws by CIM Urban and its subsidiaries;

the absence of any breach or violation or default of any material contract or debt instrument by CIM Urban or its subsidiaries;

accuracy and compliance with applicable securities law of the information supplied by CIM REIT and CIM Merger Sub for inclusion in this proxy statement/prospectus;

insurance policies maintained by CIM Urban and its subsidiaries;

**Table of Contents**

sufficiency of funds to consummate the transactions contemplated by the Merger Agreement; and

no ownership of PMC Commercial Common Shares by CIM REIT or its affiliates as of the date of the Merger Agreement.

In the Merger Agreement, PMC Commercial and PMC Merger Sub made representations and warranties to CIM REIT relating to, among other things:

due organization, valid existence, good standing and power and authority to carry on its business as now being conducted;

its subsidiaries due incorporation or organization, valid existence, good standing and power and authority to carry on its business as now being conducted;

the capital structure of PMC Commercial;

authority of PMC Commercial and PMC Merger Sub to enter into the Merger Agreement and to complete the Merger;

absence of conflicts with, violations of, or defaults under, its and its subsidiaries organizational documents, certain contracts applicable to it and its subsidiaries and applicable laws;

consents, approvals of, or registrations or filings with, governmental entities required in connection with executing and delivering the Merger Agreement or the consummation of the transactions contemplated by the Merger Agreement;

PMC Commercial's SEC filings since December 31, 2011, and the financial statements contained therein;

absence of liabilities required to be reflected on a balance sheet by GAAP since December 31, 2012;

enforceability of the Merger Agreement against it;

absence of any PMC Commercial Material Adverse Change and certain other changes and events since December 31, 2012 through the date of the Merger Agreement;

absence of litigation or investigations against or affecting PMC Commercial or its subsidiaries;

environmental matters affecting PMC Commercial;

certain related party transactions;



## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

ERISA and benefit plan rule compliance;

loans by PMC Commercial and its subsidiaries;

tax matters affecting PMC Commercial, including PMC Commercial's REIT qualification;

any employment or severance contract requiring amounts payable upon a change of control to PMC Commercial or its subsidiaries employees, officers or directors;

absence of any undisclosed broker's or finder's fees;

compliance with applicable laws;

the absence of any breach or violation or default of any material contract or debt instrument by PMC Commercial or its subsidiaries;

opinion of financial advisor;

exemption of PMC Commercial from anti-takeover or similar statutes;

accuracy and compliance with applicable securities law of the information supplied by PMC Commercial for inclusion in this proxy statement/prospectus;

**Table of Contents**

insurance policies maintained by PMC Commercial; and

vote of the PMC Commercial shareholders necessary to approve the Merger Agreement.

**Conduct of CIM REIT's Business Pending the Merger**

Under the Merger Agreement, CIM REIT has agreed that, subject to certain exceptions in the disclosure schedules delivered in connection with the Merger Agreement, between the date of the Merger Agreement and the effective time of the Merger, CIM REIT shall use commercially reasonable efforts to cause CIM Urban and its subsidiaries to carry on their businesses in the usual, regular and ordinary course in substantially the same manner as conducted before the date of the Merger Agreement and, to the extent consistent with that conduct, use commercially reasonable efforts to preserve intact their current business organization, goodwill and ongoing business.

CIM REIT also agreed that during the same time period, except as specifically permitted by the Merger Agreement, CIM REIT will use commercially reasonable efforts to cause CIM Urban and its subsidiaries not to (and not to authorize or commit or agree to):

except for regular quarterly dividend payments consistent with past practice, including a pro rata dividend payment which is consistent with past practice but paid prior to the effective time of the Merger, declare, set aside or pay any dividends on, or make any other distributions in respect of, any equity interests of CIM Urban, if any;

split, combine or reclassify any equity interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any such equity interests;

purchase, redeem or otherwise acquire any of its equity interests or any options, warrants or rights to acquire, or security convertible into, any such equity interests;

issue, deliver or sell, or grant any option or other right in respect of, any equity interests of any of its subsidiaries or any securities convertible into, or any rights, warrants or options to acquire, any such equity interests except to a subsidiary;

amend the articles or certificate of incorporation, bylaws, partnership agreement or other comparable charter or organizational documents of CIM Urban or any of its subsidiaries;

merge or consolidate with any person;

sell or otherwise dispose of any asset or property except in the ordinary course of business consistent with past practice;

amend any material contract, instrument or other agreement except in the ordinary course of business consistent with past practice;

enter into, amend, or terminate contracts with a CIM Related Party (as defined in the Merger Agreement);

acquire any assets other than in the ordinary course of business;

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

incur any liabilities for borrowed indebtedness except in the ordinary course of business consistent with past practice or to raise funds for the payment of the Special Dividend;

adopt any new employee benefit plan, incentive plan, severance plan, stock option or similar plan, grant new stock appreciation rights or amend any existing plan or rights, except such changes as are required by law or which are not more favorable to participants than provisions presently in effect; and

settle any shareholder derivative or class action claims arising out of or in connection with any of the transactions contemplated by the Merger Agreement.

**Table of Contents**

**Conduct of PMC Commercial's Business Pending the Merger**

Under the Merger Agreement, PMC Commercial has agreed that, subject to certain exceptions in the disclosure schedules delivered in connection with the Merger Agreement, between the date of the Merger Agreement and the effective time of the Merger, PMC Commercial shall, and shall cause its subsidiaries to, carry on its businesses in the usual, regular and ordinary course in substantially the same manner as conducted before the date of the Merger Agreement and, to the extent consistent with that conduct, use commercially reasonable efforts to preserve intact their current business organization, goodwill and ongoing business.

PMC Commercial also agreed that during the same time period, except as specifically permitted by the Merger Agreement, PMC Commercial shall not, and shall cause its subsidiaries not to (and not to authorize or commit or agree to):

except for the payment of regular quarterly dividends not in excess of \$0.125 per PMC Commercial Common Share (including any pro rata portion thereof), declare, set aside or pay any dividends on, or make any other distributions in respect of, any of PMC Commercial's capital shares other than the Special Dividend;

split, combine or reclassify any equity interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any such equity interests;

purchase, redeem or otherwise acquire any of its equity interests or any options, warrants or rights to acquire, or security convertible into, any such equity interests;

except as required pursuant to the exercise of options or the issuance of shares pursuant to share rights or warrants outstanding on the date of the Merger Agreement, issue, deliver or sell, or grant any option or other right in respect of, any equity interests of PMC Commercial or any of its subsidiaries or any securities convertible into, or any rights, warrants or options to acquire, any such equity interests except to PMC Commercial or a subsidiary thereof;

amend the declaration of trust, articles or certificate of incorporation, bylaws, partnership agreement or other comparable charter or organizational documents of PMC Commercial or any of its subsidiaries;

merge or consolidate with any person;

make or change any tax election or take any other action (or fail to take any action) that would result in PMC Commercial no longer qualifying as a REIT or no longer being entitled to the benefit of the provisions of Part II of subchapter M of the Code;

sell or otherwise dispose of any asset or property except in the ordinary course of business consistent with past practice;

amend any material contract, instrument or other agreement except in the ordinary course of business consistent with past practice;

enter into, amend, or terminate contracts with a Trust Related Party (as defined in the Merger Agreement);

acquire any assets other than in the ordinary course of business;

incur any liabilities for borrowed indebtedness except in the ordinary course of business consistent with past practice;

adopt any new employee benefit plan, incentive plan, severance plan, stock option or similar plan, grant new stock appreciation rights or amend any existing plan or rights, except such changes as are required by law or which are not more favorable to participants than provisions presently in effect; and

settle any shareholder derivative or class action claims arising out of or in connection with any of the transactions contemplated by the Merger Agreement.

## **Table of Contents**

### **Preparation of the Registration Statement and the Proxy Statement**

As required by the Merger Agreement, CIM REIT and PMC Commercial were obligated to prepare, and PMC Commercial was obligated to file with the SEC, a registration statement that includes a preliminary version of this proxy statement/prospectus. Each of CIM REIT and PMC Commercial are obligated to use commercially reasonable efforts to (i) respond to any comments of the SEC and (ii) have the registration statement declared effective under the Securities Act and the rules and regulations promulgated thereunder as promptly as practicable after such filing and to keep the registration statement effective as long as is reasonably necessary to consummate the Merger.

PMC Commercial is obligated to use commercially reasonable efforts to cause this proxy statement/prospectus to be mailed to PMC Commercial's shareholders as promptly as practicable after the registration statement is declared effective under the Securities Act.

PMC Commercial is obligated to also take any action required to be taken under any applicable state securities or "blue sky" laws in connection with the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares pursuant to the Merger Agreement, and CIM REIT shall furnish all information concerning CIM Urban as may be reasonably requested in connection with any such action. PMC Commercial will use commercially reasonable efforts to obtain, prior to the effective date of the registration statement of which this proxy statement/prospectus forms a part, all necessary state securities or "blue sky" permits or approvals required to carry out the transactions contemplated by the Merger Agreement and will pay or cause one of its subsidiaries to pay all expenses incident thereto.

### **Shareholders Meeting**

PMC Commercial is required to call, give notice of, convene and hold a meeting of PMC Commercial shareholders for the purpose of obtaining shareholder approval of the Share Issuance Proposal as promptly as reasonably practicable after the date of mailing of this proxy statement/prospectus. Subject to certain exceptions in the Merger Agreement, PMC Commercial will, through the Board of Trust Managers, recommend to its shareholders approval of the Share Issuance Proposal.

### **Access to Information**

Subject to the requirements of confidentiality agreements with third parties, each of CIM REIT and PMC Commercial shall, and shall cause each of its respective subsidiaries to, afford to the other party and to the officers, employees, accountants, counsel, financial advisors and other representatives of such other party, reasonable access during normal business hours during the period prior to the effective time to all their respective properties, books, contracts, commitments, personnel and records.

### **Agreement to Take Certain Action and Use Commercially Reasonable Efforts**

CIM REIT and PMC Commercial shall: (a) use all commercially reasonable efforts to cooperate with one another in (i) determining which filings are required to be made prior to the effective time with, and which consents, approvals, permits or authorizations are required to be obtained prior to the effective time from, governmental or regulatory authorities in connection with the execution and delivery of the Merger Agreement and (ii) timely make all such filings and timely seek all such consents, approvals, permits and authorizations; (b) use all commercially reasonable efforts to obtain in writing any consents required from third parties to effectuate the Merger; and (c) use all commercially reasonable efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary, proper or appropriate to consummate and make effective the transactions contemplated by the Merger Agreement.

## **Table of Contents**

### **Certain Other Covenants**

The Merger Agreement contains certain other covenants of the parties relating to, among other things:

complying with the HSR Act;

obtaining the approval of the SBA of those aspects of the Merger subject to its jurisdiction;

updating schedules;

the payment of certain transaction costs and expenses;

the tax treatment of the transactions contemplated by the Merger Agreement; and

delivery of resignation letters by the Trust Managers, and the appointment of certain individuals as Trust Managers.

In addition, the Merger Agreement contains the following covenants:

### ***Public Announcements***

None of the parties may issue a press release or make any public statement with respect to the Merger Agreement or the transactions contemplated thereby without the prior written consent of the other parties.

### ***Listing***

PMC Commercial must submit to a national securities exchange mutually acceptable to PMC Commercial and CIM REIT a listing application covering the PMC Commercial Common Shares and PMC Commercial Preferred Shares. Prior to the effective time of the Merger, PMC Commercial must use commercially reasonable efforts to have such national securities exchange approve such shares for listing, upon official notice of issuance.

### ***Rule 16b-3***

Prior to the effective time of the Merger, PMC Commercial must take all steps required to cause the issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares pursuant to the Merger Agreement to be exempt from Section 16(b) of the Exchange Act by reason of Rule 16b-3 under the Exchange Act.

### ***Indemnification***

PMC Commercial is obligated to defend against any threatened or actual claim, suit or investigation involving any person who was an officer, director or manager of PMC Commercial or any subsidiary of PMC Commercial prior to the effective time of the Merger pertaining to (i) the fact that such person is or was serving in such capacity or, at the request of PMC Commercial or a subsidiary of PMC Commercial, in a similar fiduciary or agent capacity for another company or entity or (ii) the discussion, negotiation or execution of the Merger Agreement or any other arrangements or documents contemplated thereby, or directly or indirectly relating to the Merger Agreement or such other arrangements or documents, or the consummation of the transactions contemplated by the Merger Agreement. To the fullest extent permitted by applicable law, PMC Commercial must indemnify and hold harmless all such indemnified parties from and against any and all losses, liabilities, costs and expenses (including reasonable attorney fees) incurred in connection with any such threatened or actual claim, suit or investigation.

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

All rights of any indemnified party to indemnification and advancement of expenses, and all limitations on the personal liability of PMC Commercial or any subsidiary of PMC Commercial (in the Merger Agreement or otherwise), will survive the transactions contemplated by the Merger Agreement and continue in full force and effect for six years following the effective time of the Merger, provided that all such rights that are asserted or made with respect to a claim within such period will survive until the final disposition of such claim. In addition, subject to certain limitations, for a period of six years after the effective time of the Merger, PMC Commercial



## **Table of Contents**

must maintain policies of managers, directors, officers and fiduciary liability insurance with respect to claims directly or indirectly arising from or relating to facts which occurred at or prior to the effective time, provided, that PMC Commercial shall not be obligated to expend annually more than 200% of the annual premiums currently paid by PMC Commercial for such insurance. However, in lieu of obtaining such insurance, PMC Commercial may purchase a tail or runoff insurance program for six years after the effective time with respect to wrongful acts or omissions committed or allegedly committed at or prior to the effective time, provided that the coverage under such policy is comparable to PMC Commercial's existing manager, director and officer liability policy and has coverage limits that are at least as high as those of such existing policy.

### ***Employee Matters***

Following the effective time of the Merger, PMC Commercial must honor all employment agreements and all PMC Commercial benefit plans as listed in the disclosure schedules to the Merger Agreement. For at least 12 months following the closing of the Merger, each PMC Commercial employee will continue to be employed by PMC Commercial and will continue to receive, subject to certain exceptions, compensation and benefits that are substantially comparable to those provided as of the date of the Merger Agreement. PMC Commercial may only increase an employee's compensation between the date of the Merger Agreement and the closing date of the Merger in the ordinary course of business consistent with past practice. If the closing date occurs prior to December 31, 2013, PMC Commercial must (i) continue to sponsor through at least December 31, 2013 such benefit plans, and (ii) permit the continuing employees and their eligible dependents to participate in such benefit plans.

Subject to certain exceptions, CIM REIT benefit plans must give each such continuing employee full credit for all service with PMC Commercial prior to the closing date of the Merger to the same extent as such continuing employee was entitled to under any similar PMC Commercial benefit plan.

Following the closing date of the Merger, CIM REIT benefit plans providing benefits to any PMC Commercial continuing employee must, with respect to such continuing employee and their eligible dependents: (i) waive any pre-existing conditions, (ii) provide credit for prior service with PMC Commercial for purposes of satisfying any applicable waiting periods and (iii) give credit in the year in which the closing date occurs for any copayments, deductibles and out of pocket limits paid in such year prior to the closing date, in each case, as would have been applicable under the existing plans of PMC Commercial.

If the closing of the Merger occurs prior to December 31, 2013, PMC Commercial must pay to each continuing employee an annual bonus payment due to such continuing employee under PMC Commercial's 2013 annual bonus plan. Prior to January 15, 2014, PMC Commercial must fund an employer profit sharing contribution to the PMC Commercial 401(k) plan for the plan year ending December 31, 2013 for at least the same funding level as was funded for the plan year ending December 31, 2012.

### ***PMC Commercial Board Nomination Committee Procedures***

Prior to the effective time of the Merger, PMC Commercial must take such actions as may be necessary so that, as of the effective time, (a) the number of Trust Managers that will comprise the Board of Trust Managers shall be seven, consisting of three independent Trust Managers and four non-independent Trust Managers (who are affiliated with CIM Group) and (b) the Board of Trust Managers (and committees thereof) shall have been properly evaluated and approved by PMC Commercial's Nominating and Corporate Governance Committee (or CIM REIT shall be advised otherwise and shall be entitled to nominate substitute candidate(s)) so that they may commence to serve effective as of the effective time.

### ***Subsequent Proxy Statement***

Promptly after the effective time of the Merger, PMC Commercial must file with the SEC a preliminary proxy statement to solicit proxies from PMC Commercial's shareholders to vote in favor of an increase in the authorized number of PMC Commercial Common Shares to one billion shares through an amendment to the Declaration of Trust of PMC Commercial or reincorporation of PMC Commercial from Texas to Maryland. As

## **Table of Contents**

soon as practical following its clearance by the SEC, PMC Commercial must distribute such proxy statement to PMC Commercial's shareholders and convene a meeting of PMC Commercial's shareholders to approve the matters set forth in the such proxy statement. Each of the CIM Parties must vote all of the PMC Commercial Common Shares and PMC Commercial Preferred Shares held by it in favor of such matters. Promptly after such meeting, PMC Commercial must take all actions necessary to effectuate the transactions and other proposals described in the such proxy statement that were approved at such meeting.

### ***Closing Dividend***

PMC Commercial must pay the Special Dividend on or prior to the tenth business day after the effective time of the Merger.

### **Acquisition Proposals**

In this proxy statement/prospectus, the term *Acquisition Proposal* means any proposal or offer with respect to (x) a merger, consolidation, business combination or similar transaction with any person or group of persons that involves PMC Commercial or any of its subsidiaries or (y) any acquisition (whether by tender offer, share exchange or other manner) by any person or group of persons which, in each case of (x) and (y), if consummated would result in any person or group of persons becoming the beneficial owner of, directly or indirectly, in one or a series of related transactions, equity securities of PMC Commercial or any of its subsidiaries representing more than 20% of all outstanding equity securities of PMC Commercial (by vote or value), or more than 20% of the consolidated total assets (including equity securities of its subsidiaries) of PMC Commercial and its subsidiaries, taken as a whole, in each case other than the transactions contemplated by the Merger Agreement.

### ***Go-Shop Period***

The *Go-Shop Period* began on the date of execution of the Merger Agreement and lasted until August 6, 2013.

During the *Go-Shop Period*, PMC Commercial and its representatives had the right to:

initiate, solicit and encourage any inquiry or the making of any proposals or offers that constitute *Acquisition Proposals*, including by way of providing access to non-public information to any person pursuant to confidentiality agreements on customary terms not materially more favorable in the aggregate to such person than those contained in the confidentiality agreement with CIM REIT; provided that PMC Commercial had promptly (and in any event within 24 hours thereafter) made available to CIM REIT any material non-public information concerning PMC Commercial or its subsidiaries if such information was not previously made available to CIM REIT, and

engage or enter into or otherwise participate in any discussions or negotiations with any persons or groups of persons with respect to any *Acquisition Proposals* or otherwise cooperate with or assist or participate in, or facilitate any such inquiries, proposals, discussions or negotiations or any effort or attempt to make any *Acquisition Proposals*.

PMC Commercial has the obligation, both during the *Go-Shop Period* and thereafter during the *No-Shop Period*, to provide CIM REIT with a written summary of the material terms of any *Acquisition Proposal* and the identity of the party making such proposal.

### ***No-Shop Period***

The *No-Shop Period* began after the *Go-Shop Period* expired on August 6, 2013. Upon termination of the *Go-Shop Period*, PMC Commercial and its officers and representatives were obligated to immediately cease any discussions or negotiations with any persons that were ongoing with respect to an *Acquisition Proposal*.

---

## **Table of Contents**

During the No-Shop Period, PMC Commercial and its officers and representatives shall not (A) initiate, solicit or encourage any inquiries or the making of any proposal or offer that constitutes an Acquisition Proposal, (B) engage in or otherwise participate in any discussions or negotiations regarding, or provide any non-public information or data concerning PMC Commercial or its subsidiaries to any person relating to any Acquisition Proposal, (C) enter into any agreement or agreement in principle with respect to any Acquisition Proposal, or (D) otherwise knowingly facilitate any effort or attempt to make an Acquisition Proposal.

### ***Unsolicited Offers***

If PMC Commercial receives an unsolicited written Acquisition Proposal that is not in violation of the No-Shop Period, (i) PMC Commercial and its representatives may provide non-public information and data concerning PMC Commercial in response to a request therefor by such person (subject to a confidentiality agreement) and (ii) PMC Commercial and its representatives may engage or participate in any discussions or negotiations with such person, if and only to the extent that, (x) prior to taking any action described above, the Board of Trust Managers or any committee thereof determines in good faith (after consultation with its outside legal counsel) that failure to take such action would be inconsistent with the Trust Managers' fiduciary duties under applicable law, and (y) the Board of Trust Managers or any committee thereof has determined in good faith (after consultation with outside legal counsel and a financial advisor) that such Acquisition Proposal either constitutes a superior proposal or could reasonably be expected to result in a superior proposal.

### ***Fiduciary Termination***

The Merger Agreement provides that prior to the time that PMC Commercial's shareholders approve the Share Issuance Proposal, the Board of Trust Managers may withhold, withdraw, qualify or modify its recommendation that the Company's shareholders approve the Share Issuance Proposal only if the Board of Trust Managers determines that failure to do so would reasonably be expected to be inconsistent with its fiduciary duties (a Change in Recommendation), in which event the Board of Trust Managers may also terminate the Merger Agreement (a Fiduciary Termination). However, the Merger Agreement provides that the Board of Trust Managers must notify CIM REIT before it makes a Change in Recommendation and negotiate in good faith with CIM REIT to make such changes to the Merger Agreement as would preclude the Board of Trust Managers from effecting a Change in Recommendation or a Fiduciary Termination. The Merger Agreement also provides that if the Board of Trust Managers determines that its fiduciary duties so require, the Board of Trust Managers may effect a Change in Recommendation after there has been a material event or circumstance relating to the business of the Company that occurs or arises after the date of the Merger Agreement and becomes known to the Board of Trust Managers after the date of the Merger Agreement and before the Share Issuance Proposal is approved (an Intervening Event). However, the Merger Agreement provides that prior to making such a Change in Recommendation in response to an Intervening Event, the Company must notify CIM REIT and negotiate in good faith with CIM REIT to make such changes to the terms of the Merger Agreement as would preclude the Board from effecting such a Change in Recommendation.

### **Conditions to Complete the Merger**

The obligations of each party to complete the Merger are subject to the satisfaction or waiver of the following conditions:

the approval of the Share Issuance Proposal by PMC Commercial's shareholders;

any waiting period applicable to the Merger under the HSR Act shall have been terminated or expired;

a national securities exchange mutually acceptable to CIM REIT and PMC Commercial shall have approved for listing the PMC Commercial Common Shares and the PMC Commercial Preferred Shares, including the PMC Commercial Common Shares and the PMC Commercial Preferred Shares to be issued in the Merger and all PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares;

**Table of Contents**

the SBA shall have approved those aspects of the Merger subject to its jurisdiction, and such approval shall not contain any terms or conditions that are unacceptable to CIM REIT or PMC Commercial or are inconsistent with the Merger Agreement;

the registration statement on Form S-4 filed with the SEC by PMC Commercial, of which this proxy statement/prospectus constitutes a part, shall have been declared effective, and no stop order or proceeding suspending the effectiveness of the Form S-4 shall have been initiated or threatened by the SEC and not withdrawn;

no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger shall be in effect;

PMC Commercial shall have received all state securities or blue sky permits and other authorizations necessary to issue the PMC Commercial Common Shares and the PMC Commercial Preferred Shares pursuant to the Merger Agreement;

all other consents, approvals, orders, authorizations, registrations, and declarations of any governmental entity required to consummate the Merger shall have been obtained and remain in full force and effect, except for such consents, approvals, orders, authorizations, registrations, or declarations which, if not obtained or made, would not prevent or delay in any material respect the consummation of the Merger or otherwise prevent the parties from performing their respective obligations under the Merger Agreement in any material respect or have a material adverse effect; and

CIM REIT and PMC Commercial shall have received opinions of counsel to CIM REIT, dated as of the closing date, reasonably satisfactory to CIM REIT and PMC Commercial, that (A) after giving effect to the Merger, PMC Commercial's proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code, and (B) the Merger should qualify as a transfer of property by CIM REIT to PMC Commercial solely in exchange for shares of PMC Commercial, as described in section 351(a) of the Code. For purposes of such opinions, which shall be in a form customary for transactions of this nature, counsel to CIM REIT may rely on customary assumptions and representations of CIM REIT, PMC Commercial and their officers.

The obligations of PMC Commercial and PMC Merger Sub to complete the Merger are further subject to satisfaction or waiver of, among other things, the following conditions:

the representations and warranties of CIM REIT and CIM Merger Sub set forth in the Merger Agreement shall be true and correct as of the date of the Merger Agreement and as of the closing date, as though made on and as of the closing date, except to the extent the representation or warranty is expressly limited by its terms to another date. This condition shall be deemed satisfied unless any or all breaches of CIM REIT's and CIM Merger Sub's representations and warranties in the Merger Agreement (without giving effect to any materiality qualification or limitation) is reasonably expected to have a CIM Material Adverse Effect (as defined below);

each of CIM REIT and CIM Merger Sub shall have performed in all material respects all obligations required to be performed by it under the Merger Agreement at or prior to the effective time;

since the date of the Merger Agreement, there shall have been no CIM Material Adverse Change;

all consents and waivers from third parties necessary in connection with the consummation of the Merger shall have been obtained, other than such consents and waivers from third parties, which, if not obtained, would not result, individually or in the aggregate, in a CIM Material Adverse Effect;

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

the Advisor shall have executed and delivered the Master Services Agreement to PMC Commercial to be effective as of the effective time of the Merger; and

**Table of Contents**

PMC Commercial shall have received an opinion of counsel to CIM REIT dated as of the closing date, reasonably satisfactory to PMC Commercial, to the effect that each REIT subsidiary of CIM Urban has been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code at all times since the formation of such REIT subsidiary through the closing date.

The obligations of CIM REIT and CIM Merger Sub to complete the Merger and the other transactions contemplated by the Merger Agreement are further subject to satisfaction or waiver of, among other things, the following conditions:

the representations and warranties of PMC Commercial and PMC Merger Sub set forth in the Merger Agreement shall be true and correct as of the date of the Merger Agreement and as of the closing date, as though made on and as of the closing date, except to the extent the representation or warranty is expressly limited by its terms to another date. This condition shall be deemed satisfied unless any or all breaches of PMC Commercial's and PMC Merger Sub's representations and warranties in the Merger Agreement (without giving effect to any materiality qualification or limitation) are reasonably expected to have a PMC Commercial Material Adverse Effect (as defined below);

each of PMC Commercial and PMC Merger Sub shall have performed in all material respects all obligations required to be performed by it under the Merger Agreement at or prior to the effective time;

since the date of the Merger Agreement, there shall have been no PMC Commercial Material Adverse Change;

CIM REIT shall have received an opinion of counsel to PMC Commercial dated as of the closing date, reasonably satisfactory to CIM REIT, to the effect that, at all times since its taxable year ended December 31, 2007 through the closing date, PMC Commercial has been organized and operated in conformity with the requirements for qualification as a REIT under the Code;

the Board of Trust Managers (and committees thereof) shall be as set forth in the Merger Agreement as of the effective time;

PMC Commercial shall have executed and delivered the Master Services Agreement to the Advisor to be effective as of the effective time of the Merger; and

all consents and waivers from third parties necessary in connection with the consummation of the Merger shall have been obtained, other than such consents and waivers from third parties which, if not obtained, would not have a PMC Commercial Material Adverse Effect.

In this proxy statement/prospectus, the term:

**CIM Material Adverse Effect** shall mean a material adverse effect on the business, properties, assets, financial condition or results of operations of CIM Urban and its subsidiaries taken as a whole but excluding therefrom any such change, effect, event, occurrence or state of facts resulting from or arising in connection with (a) changes or conditions generally affecting the industries in which CIM Urban operates, (b) the Merger Agreement, the Merger or the announcement thereof or (c) any change or effect resulting from any change in general economic conditions.

**CIM Material Adverse Change** shall mean any change that would have a CIM Material Adverse Effect.

**PMC Commercial Material Adverse Effect** shall mean a material adverse effect on the business, properties, assets, financial condition or results of operations of PMC Commercial and its subsidiaries taken as a whole but excluding therefrom any such change, effect, event, occurrence or state of facts resulting from or arising in connection with (a) changes or conditions generally affecting the industries in which PMC Commercial operates, (b) the Merger Agreement, the Merger or the announcement thereof or (c) any change or effect resulting from any change in general economic conditions.



**Table of Contents**

PMC Commercial Material Adverse Change shall mean any change that would have a PMC Commercial Material Adverse Effect.

**Termination of the Merger Agreement**

***Termination by Mutual Consent***

The Merger Agreement and the corresponding transactions may be terminated by mutual agreement of PMC Commercial and CIM REIT at any time prior to the effective time, regardless of whether or not PMC Commercial shareholder approval has been obtained.

***Termination by Either CIM REIT or PMC Commercial***

Either CIM REIT or PMC Commercial may terminate the Merger Agreement if:

the Merger shall not have been consummated by December 31, 2013;

the PMC Commercial shareholders meeting shall have been held and completed and PMC Commercial shareholder approval of the Share Issuance Proposal shall not have been obtained at such PMC Commercial shareholders meeting or at any adjournment or postponement thereof; or

any injunction permanently restraining, enjoining or otherwise prohibiting consummation of the Merger shall become final and non-appealable (whether before or after PMC Commercial shareholder approval has been obtained).

***Termination by PMC Commercial***

PMC Commercial may terminate the Merger Agreement if:

the Board of Trust Managers authorizes PMC Commercial to enter into definitive transaction documentation providing for a superior proposal, (ii) immediately prior to or substantially concurrently with the termination of the Merger Agreement, PMC Commercial enters into an alternative acquisition agreement with respect to a superior proposal and (iii) PMC Commercial pays to CIM REIT the applicable termination fee; or

there has been a breach of any representation, warranty, covenant or agreement made by CIM REIT or CIM Merger Sub in the Merger Agreement such that the conditions set forth therein would not be satisfied and such breach or condition is not curable or, if curable, is not cured prior to the earlier of (i) 30 days after written notice thereof is given by PMC Commercial to CIM REIT and (ii) December 31, 2013.

***Termination by CIM REIT***

CIM REIT may terminate the Merger Agreement if:

the Board of Trust Managers fails to recommend in this proxy statement/prospectus the Share Issuance Proposal or shall make a change of recommendation or shall approve, recommend or endorse an alternative Acquisition Proposal or resolves or publicly proposes to do any of the foregoing; or there shall have been a material breach by any of PMC Commercial's Trust Managers, officers or managers of certain of PMC Commercial's covenants which cannot be or are not cured within five business days after written notice thereof; or



## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

there has been a breach of any representation, warranty, covenant or agreement made by PMC Commercial or PMC Merger Sub in the Merger Agreement such that the conditions set forth therein would not be satisfied and such breach cannot be or is not cured prior to the earlier of (i) 30 days after written notice thereof is given by CIM REIT to PMC Commercial and (ii) December 31, 2013.

---

**Table of Contents**

**Termination Fees and Expenses**

If:

- (x) (a) the Merger Agreement is terminated by PMC Commercial or CIM REIT because (i) the Merger has not been consummated by December 31, 2013 or (ii) the PMC Commercial shareholder approval of the Share Issuance Proposal has not been obtained at the PMC Commercial shareholders meeting, or if CIM REIT terminates the Merger Agreement because there has been a material and willful breach by PMC Commercial or PMC Merger Sub, (b) any person makes a bona fide alternative Acquisition Proposal (for ownership 50% or more) prior to such termination that is not irrevocably withdrawn, and (c) within 12 months after such termination, PMC Commercial enters into a definitive agreement or consummates a transaction with respect to such Acquisition Proposal or any other Acquisition Proposal, or

- (y) if CIM terminates the Merger Agreement because the Board of Trust Managers fails to recommend the Share Issuance Proposal, makes a change of recommendation, or approves an alternative Acquisition Proposal, or if there has been a material breach by PMC Commercial's directors, officers or managers of certain provisions of the Merger Agreement,

then PMC Commercial must pay CIM REIT a termination fee equal to \$4 million plus expense reimbursement of up to \$700,000 (exclusive of expenses incurred by PMC Commercial prior to the execution of the Merger Agreement and reimbursed by CIM REIT or its affiliates).

Additionally, if PMC Commercial terminates the Merger Agreement in order to enter into an alternative acquisition agreement with respect to a superior proposal, then PMC Commercial must pay CIM REIT a termination fee equal to \$4 million (\$3 million if the Merger Agreement had been terminated during the Go-Shop Period) plus expense reimbursement up to \$700,000 (exclusive of expenses incurred by PMC Commercial prior to the execution of the Merger Agreement and reimbursed by CIM REIT or its affiliates).

**Amendment and Waiver**

The Merger Agreement may be amended by the parties at any time before or after the PMC Commercial shareholder approvals are obtained and prior to the effective time of the Merger, but any such amendments that require approval of the shareholders of PMC Commercial must be submitted for such approval.

**THE TERMS OF THE PMC COMMERCIAL PREFERRED SHARES**

PMC Commercial is authorized to issue one or more series of preferred shares and with respect to any such series to fix the numbers, designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption of such series, in each case, if any, as permitted by Texas law and as the Board of Trust Managers may authorize.

The Board of Trust Managers has authorized the issuance of a class of PMC Commercial preferred shares, consisting of 65,028,571 preferred shares designated as Class A Convertible Cumulative Preferred Shares, \$.01 par value per share (liquidation preference \$17.50 per share). The PMC Commercial Preferred Shares have an initial price of \$35.00 per share.

*The following is a summary of certain provisions of the PMC Commercial Preferred Shares and is qualified in its entirety by reference to all of the provisions of the form of Statement of Designation of the Class A Preferred Shares of Beneficial Interest of PMC Commercial, which is included as Annex B to this proxy statement/prospectus (the "Statement of Designation"). Because this description is only a summary, it does not necessarily contain all of the information that you may find useful. We therefore urge you to review the Statement of Designation in its entirety.*

## **Table of Contents**

### **Ranking**

Each authorized PMC Commercial Preferred Share shall rank pari passu with any other PMC Commercial preferred shares with respect to distribution rights or payments in the event of any voluntary or involuntary liquidation, dissolution or winding up of PMC Commercial. The PMC Commercial Preferred Shares, together with any other PMC Commercial preferred shares, will rank senior to the PMC Commercial Common Shares and any other class or series of shares of beneficial interest of PMC Commercial ranking, as to distributions and upon liquidation, junior to the PMC Commercial Preferred Shares (collectively, the Junior Shares ).

### **Distributions**

The holders of the then outstanding PMC Commercial Preferred Shares shall be entitled to receive, when and as authorized by the Trust Managers and declared by PMC Commercial out of any funds legally available therefor, cumulative distributions at the rate of 2% of \$35.00 per share (as equitably adjusted to reflect any stock split, subdivision, combination or similar event) per year (the Class A Preferred Amount ); provided, however, that if the Conversion Date (as defined below) occurs on or before the Conversion Deadline (as defined below), the Class A Preferred Amount shall be calculated at the rate of 3.5% of \$35.00 per share (as equitably adjusted to reflect any stock split, subdivision, combination or similar event) per year. Distributions paid on the PMC Commercial Preferred Shares in an amount less than the total amount of such distributions at the time accrued and payable on such shares shall be allocated pro rata on a per share basis among all such shares at the time outstanding. Unless the full Class A Preferred Amount shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment, no dividends or distributions shall be declared or paid or set aside for payment nor shall any other dividend or distribution be declared or made upon the PMC Commercial Common Shares, or any Junior Shares (except for any dividends or distributions declared prior to the date of the Statement of Designation authorizing the PMC Commercial Preferred Shares).

Except as provided in the Statement of Designation authorizing the PMC Commercial Preferred Shares, the PMC Commercial Preferred Shares shall not be entitled to participate in PMC Commercial s earnings or assets.

### **Liquidation Rights**

Upon any voluntary or involuntary liquidation, dissolution or winding up of PMC Commercial, before any payment or distribution shall be made on any Junior Shares, the holders of the PMC Commercial Preferred Shares then outstanding shall be entitled to receive and to be paid out of the assets of PMC Commercial available for distribution to its shareholders in the amount of \$17.50 per share (as equitably adjusted to reflect any stock split, subdivision, combination or similar event), plus accrued and unpaid distributions thereon. After the payment to the holders of the PMC Commercial Preferred Shares of the full preferential amounts, the holders of the PMC Commercial Preferred Shares will share, ratably with the PMC Commercial Common Shares, in any distribution(s) of the remaining assets of PMC Commercial; provided, that, for such purposes, each PMC Commercial Preferred Share shall be considered 3.5 Common Shares, and each PMC Commercial Preferred Share shall receive a distribution that is 3.5 times the distribution paid to each PMC Commercial Common Share (such 3.5 amount shall be equitably adjusted to reflect any stock split, subdivision, combination or similar event).

If, upon any voluntary or involuntary dissolution, liquidation or winding up of PMC Commercial, the amounts payable with respect to the preference value of the PMC Commercial Preferred Shares and any other shares of beneficial interest of PMC Commercial ranking as to any such distribution on parity with the PMC Commercial Preferred Shares are not paid in full, the holders of the PMC Commercial Preferred Shares and of such other shares will share ratably in any such distribution of assets of PMC Commercial in proportion to the full respective preference amounts to which they are entitled. A voluntary or involuntary liquidation, dissolution or winding up of PMC Commercial does not include its consolidation or merger with one or more entities or a sale of all or substantially all of the assets of PMC Commercial.

---

**Table of Contents**

**Redemption**

The PMC Commercial Preferred Shares are not redeemable by any person.

**Conversion**

On the first business day on which, pursuant to PMC Commercial's Declaration of Trust, there are sufficient authorized but unissued shares to convert all of the PMC Commercial Preferred Shares into PMC Commercial Common Shares (the Conversion Date), each PMC Commercial Preferred Share shall automatically convert into seven fully paid and non-assessable PMC Commercial Common Shares (as equitably adjusted to reflect any stock split, subdivision, combination or similar event). Each holder of a PMC Commercial Preferred Share shall surrender the certificate representing such share, duly endorsed or assigned to PMC Commercial or in blank, at the office of PMC Commercial's transfer agent. Unless the shares issuable on conversion are to be issued in the same name as the name in which such PMC Commercial Preferred Share is registered, each share surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to PMC Commercial, duly executed by the holder or such holder's duly authorized attorney and an amount sufficient to pay any transfer or similar tax (or evidence reasonably satisfactory to PMC Commercial demonstrating that such taxes have been paid). As promptly as practicable after the surrender of certificates representing PMC Commercial Preferred Shares as aforesaid, PMC Commercial shall issue and shall deliver at such office to such holder, or on his or her written order, a certificate or certificates for the number of full PMC Commercial Common Shares issuable upon the conversion of such shares. Upon conversion, holders of PMC Commercial Preferred Shares shall be entitled to receive a final distribution, per PMC Commercial Preferred Share, equal to the accrued and unpaid Class A Preferred Amount which had accrued up to the most recent dividend record date and which remains unpaid as of the Conversion Date; provided, however, that if the Conversion Date occurs on or before the Conversion Deadline, the Class A Preferred Amount shall be calculated at the rate of 3.5% of \$35.00 per share (as equitably adjusted to reflect any stock split, subdivision, combination or similar event) per year. The payment(s) described in this paragraph shall be considered paid prior to the conversion of the PMC Commercial Preferred Shares into PMC Commercial Common Shares. If the Conversion Date occurs on the same date as a dividend record date, then (x) the Class A Preferred Amount shall accrue through the dividend record date and the final distribution shall be paid in accordance therewith, and (y) the PMC Commercial Common Shares resulting from the conversion of the PMC Commercial Preferred Shares shall not be deemed held or owned on the dividend record date.

Conversion Deadline means the date which is six months from the effective date of the Merger; provided, however, that in the event that the Conversion Date does not occur on or prior to the date which is six months from the effective date of the Merger due to the occurrence of one or more of the events specified below (each, a Force Majeure Event), then the Conversion Deadline shall be extended by one day for each day by which such Force Majeure Event(s) has delayed the occurrence of the Conversion Date (provided that each of PMC Commercial and the persons issued PMC Commercial Common Shares and PMC Commercial Preferred Shares in connection with the Merger Agreement uses its reasonable commercial efforts to cure the applicable Force Majeure Event and effect the Conversion Date as promptly as practicable). Force Majeure Events mean (a) any action taken by any court, governmental body (including the SEC), or any other person or entity unaffiliated with the persons issued PMC Commercial Common Shares and PMC Commercial Preferred Shares in connection with the Merger Agreement that prevents or delays the Conversion Date; or (b) fire, flood, earthquakes, interruption of utilities, strikes, labor disturbances, terrorism, riots, explosions, civil disorders, armed conflict, economic catastrophe, governmental (including SEC) shutdown, breakdowns or malfunctions, interruptions or malfunctions of computer facilities, loss of data due to power failures or mechanical difficulties with information storage or retrieval systems, or other forces or events beyond the control of PMC Commercial and/or the persons issued PMC Commercial Common Shares and PMC Commercial Preferred Shares in connection with the Merger Agreement.

## **Table of Contents**

PMC Commercial covenants that any PMC Commercial Common Shares issued upon conversion of the PMC Commercial Preferred Shares shall be validly issued, fully paid and non-assessable. PMC Commercial shall list the PMC Commercial Common Shares required to be delivered upon conversion of the PMC Commercial Preferred Shares, prior to such delivery, upon each national securities exchange, if any, upon which the outstanding PMC Commercial Common Shares are listed at the time of such delivery. PMC Commercial will pay any and all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of PMC Commercial Common Shares or other securities or property on conversion of the PMC Commercial Preferred Shares; provided, however, that PMC Commercial shall not be required to pay any tax that may be payable in respect of any transfer involved in the issue or delivery of PMC Commercial Common Shares or other securities or property in a name other than that of title holder of the PMC Commercial Preferred Shares to be converted, and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to PMC Commercial the amount of any such tax or established, to the reasonable satisfaction of PMC Commercial, that such tax has been paid.

Prior to the delivery of any securities that PMC Commercial shall be obligated to deliver upon conversion of the PMC Commercial Preferred Shares, PMC Commercial shall endeavor to comply with all federal and state laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by any governmental authority.

## **Voting Rights**

Except as otherwise provided in the Statement of Designation authorizing the PMC Commercial Preferred Shares, the holders of the PMC Commercial Preferred Shares shall be entitled to vote at any meeting of the shareholders for election of Trust Managers, for any other purposes and otherwise to participate in any action taken by PMC Commercial or the shareholders thereof, and to receive notice (except for such notice as required by law) of any meeting of shareholders. In any matter in which the PMC Commercial Preferred Shares are entitled to vote, including any action by written consent, each PMC Commercial Preferred Share shall be entitled to seven votes, each of which seven votes may be directed separately by the holder thereof (or by any proxy or proxies of such holder). With respect to each PMC Commercial Preferred Share, the holder thereof may designate up to seven proxies, with each such proxy having the right to vote a whole number of votes (totaling seven votes per PMC Commercial Preferred Share). The number of proxies and votes set forth in this paragraph shall be equitably adjusted to reflect any stock split, subdivision, combination or similar event.

So long as any PMC Commercial Preferred Shares remain outstanding, PMC Commercial will not (whether by merger, consolidation or otherwise), without the affirmative vote or consent of the holders of at least two-thirds of the PMC Commercial Preferred Shares outstanding at the time, given in person or by proxy, either in writing or at a meeting (such class voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of shares of beneficial interest ranking on a parity with or senior to the PMC Commercial Preferred Shares with respect to the payment of distributions or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized shares of beneficial interest of PMC Commercial into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; (ii) except for the amendment to PMC Commercial's Declaration of Trust to increase the number of authorized PMC Commercial Common Shares as contemplated by the Merger Agreement, amend, alter or repeal the provisions of PMC Commercial's Declaration of Trust or the terms of the PMC Commercial Preferred Shares whether by merger, consolidation or otherwise, so as to affect any right, preference, privilege or voting power of the PMC Commercial Preferred Shares or the holders thereof; (iii) issue, combine or subdivide any shares of beneficial interest in PMC Commercial (except upon exercise of stock options outstanding on the date of the Statement of Designations setting forth the terms of the PMC Commercial Preferred Shares for the purchase of PMC Commercial Common Shares outstanding on the date thereof) or (iv) issue any rights, options, warrants or other convertible securities evidencing the right to purchase shares of beneficial interest of PMC Commercial. The foregoing voting provisions will not apply if, at or prior to

---

## **Table of Contents**

the time when the act with respect to which such vote would otherwise be required shall be effected, there are no outstanding PMC Commercial Preferred Shares.

### **Transfer**

The PMC Commercial Preferred Shares shall be subject to the restrictions on transfer and ownership of shares set forth in Article Twenty-One of PMC Commercial's Declaration of Trust.

### **Amendment**

The Statement of Designation setting forth the terms of the PMC Commercial Preferred Shares may be amended only with the affirmative vote of the holders of at least two-thirds of the PMC Commercial Preferred Shares and a majority of the independent Trust Managers of PMC Commercial; provided, that if any such amendment would have an adverse financial effect of greater than \$250,000 in the aggregate or a non-financial material adverse effect on the holders of the PMC Commercial Common Shares, then such amendment must also receive the approval of the holders of at least a majority of the PMC Commercial Common Shares voting on such amendment (not including any votes cast by CIM REIT or its affiliates or the holders of any PMC Commercial Preferred Shares).

## **THE REGISTRATION RIGHTS AND LOCKUP AGREEMENT;**

### **MASTER SERVICES AGREEMENT**

#### **The Registration Rights and Lockup Agreement**

*The following is a summary of certain provisions of the Registration Rights and Lockup Agreement and is qualified in its entirety by reference to all of the provisions of the agreement. Because this description is only a summary, it does not necessarily contain all of the information that you may find useful. We therefore urge you to review the Registration Rights And Lockup Agreement in its entirety, which is included as Annex C to this proxy statement/prospectus.*

The CIM Parties will be entitled to registration rights, subject to certain limitations, with respect to PMC Commercial Common Shares they will receive in the Merger and the PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares they will receive in the Merger pursuant to a Registration Rights and Lockup Agreement to be entered into in connection with the consummation of the Merger. The securities that may be registered pursuant to the Registration Rights and Lockup Agreement are referred to as Registrable Securities. The holders of at least a majority of the Registrable Securities are entitled to request that PMC Commercial file a registration statement under the Securities Act covering the registration of at least 5% of the Registrable Securities then outstanding, or a lesser percent if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$5 million. After PMC Commercial has effected eight registrations and such registration statements have been declared or ordered effective and remained in effect for a period of at least 180 days, PMC Commercial is not obligated to take any action to effect any other such registration. PMC Commercial is also not obligated to take any action to effect such a registration if PMC Commercial has effected such a registration within the preceding three months that has been declared or ordered effective. In addition, holders of the Registrable Securities will have certain piggyback and certain rights to demand registration using Form S-3. PMC Commercial will bear the expenses incurred in connection with the filing of any such registration statements.

In accordance with lockup provisions included in the Registration Rights and Lockup Agreement, the CIM Parties will not be permitted to engage in public sales of the PMC Commercial Common Shares they receive in the Merger (and the PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares) until after the 12-month anniversary of the effective time of the Merger, provided that these

## **Table of Contents**

restrictions shall not apply with respect to 40 million PMC Commercial Common Shares six months following the Merger with the prior approval of a majority of the independent Trust Managers of PMC Commercial. The foregoing lockup restrictions do not apply to private sales or transfers of such shares; provided, that such transferred shares will be subject to the same public sale lockup restrictions. The lockup restrictions will also not restrict the distribution of 100 PMC Commercial Preferred Shares to 100 different persons, or up to 200,000 PMC Commercial Preferred Shares to one or more persons, but only to the extent necessary to address the requirements of the national securities exchange on which the PMC Commercial Preferred Shares are listed and, in any event, subject to the same public sale lockup restrictions described above.

### **Master Services Agreement**

PMC Commercial and its subsidiaries will enter into the Master Services Agreement, effective upon consummation of the Merger, pursuant to which the Manager will agree to provide or arrange for other service providers to provide management and administration services to PMC Commercial and its subsidiaries.

*The following is a summary of certain provisions of the Master Services Agreement and is qualified in its entirety by reference to all of the provisions of such agreement. Because this description is only a summary, it does not necessarily contain all of the information that you may find useful. We therefore urge you to review the Master Services Agreement in its entirety, which is attached as Annex D to this proxy statement/prospectus.*

### ***Appointment of the Managers and Base Services Rendered***

Under the Master Services Agreement, PMC Commercial and its subsidiaries will appoint the Manager, as the service provider, to exclusively provide or arrange for the provision by an appropriate service provider of the following Base Services:

the non-exclusive right to make recommendations to the applicable nominating committee for members of PMC Commercial's governing body;

providing overall strategic advice to PMC Commercial, including advising with respect to the expansion of its business into new markets;

recommending suitable candidates to serve on the governing bodies of the subsidiaries of PMC Commercial;

making recommendations to the appropriate governing body with respect to the exercise of any voting rights to which PMC Commercial and its subsidiaries are entitled;

making recommendations to the PMC Commercial governing body with respect to the payment of dividends by PMC Commercial or any other distributions by PMC Commercial and its subsidiaries;

making recommendations to the PMC Commercial governing body with respect to individuals to carry out the functions of the principal executive, accounting and financial officers for PMC Commercial;

providing qualified individuals to act as senior officers of PMC Commercial and its subsidiaries as agreed from time to time, subject to the approval of the relevant governing body;

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

engaging and supervising, on PMC Commercial's behalf and at PMC Commercial's expense, independent contractors, including affiliates of the Manager, that provide investment banking, securities brokerage, other financial services, due diligence services, underwriting review services, legal and accounting services, and all other services (including transfer agent and registrar services) as may be required relating to PMC Commercial's operations and investments (or potential investments);

advising PMC Commercial as to its capital structure and capital raising activities;

advising PMC Commercial regarding marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote PMC Commercial's business;



**Table of Contents**

providing all such other strategic planning services as may from time to time be deemed reasonably related to the above-listed Base Services as determined by the Manager; and

performing such other services as may be required from time to time for management and other activities relating to PMC Commercial's properties and business, as its governing body shall reasonably request and the Manager shall deem appropriate under the particular circumstance.

The Manager may, from time to time, appoint an affiliate to act as a new Manager under the Master Services Agreement, effective upon the execution of a joinder agreement by the new Manager.

***Base Service Fee***

Pursuant to the Master Services Agreement, PMC Commercial will pay a base service fee to the Manager equal to \$1 million per year (subject to an annual escalation by a specified inflation factor beginning on January 1, 2014). For any quarter in which the independent Trust Managers of PMC Commercial determine that there is insufficient cash to pay the base service fee as well as the next regular distribution on the PMC Commercial Common Shares, PMC Commercial may elect to pay all or a portion of the base service fee in PMC Commercial Common Shares, subject to certain conditions.

***Transactional Services***

Under the Master Services Agreement, if PMC Commercial would otherwise retain a third party to perform any of the following Transactional Services, the Manager may elect to provide, or have a service provider provide, such Transactional Service:

identifying, recommending, negotiating terms, transacting and closing on acquisitions and dispositions of assets or businesses;

overseeing, coordinating and executing on capital transactions for PMC Commercial, whether in the form of debt, equity, preferred equity, bonds, debentures, or otherwise, including the preparation, review or distribution of any prospectus or offering memorandum in respect thereof and assisting with the communications support in connection therewith;

securing, negotiating, structuring, working-out, amending and closing property level debt and other financing;

identifying and securing co-investment or joint venture partner equity for specific transactions;

property management services;

development and construction management services;

leasing services;

lending services and the origination of loans to third party borrowers;

overseeing and assisting with the implementation of internal management at any subsidiary;

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

obtaining insurance for PMC Commercial and/or its properties;

human resource services, including, without limitation, payroll, payroll taxes, and benefits (including retirement benefits);

accounting services; and

activities related to the servicing of individual, or a portfolio, of loans due from third-party borrowers.

---

## **Table of Contents**

### ***Transaction Fee***

In connection with the provision of a Transactional Service, PMC Commercial will pay to the applicable service providers a Transaction Fee equal to the fair market rate charged by similar quality service providers providing similar services in the same geographic market and that are generally at least as favorable to PMC Commercial as the terms available in an arm's-length transaction with a third party, subject to certain approvals by the independent Trust Managers of PMC Commercial.

### ***Reimbursement of Expenses and Certain Taxes***

Subject to certain limited exceptions, some of which are outlined in the next paragraph, PMC Commercial is not required to reimburse the Manager for the salaries and other remuneration of its management, personnel or support staff who carry out any services or functions for PMC Commercial or overhead for such persons.

PMC Commercial will reimburse the Manager for all direct expenses and out-of-pocket fees, costs and expenses incurred in connection with the provision of the services, including those of any third party. Such out-of-pocket fees, costs and expenses are expected to include, among other things: (i) the cost of any insurance required to be obtained by the Manager under the Master Services Agreement; (ii) all insurance costs incurred in connection with the operation of PMC Commercial or any of its subsidiaries' business, including, without limitation, any costs to obtain liability or other insurance to indemnify the Manager and underwriters of any securities of PMC Commercial, but excluding the costs attributable to the insurance that the Manager elects to carry for itself and its personnel; (iii) fees, costs and expenses incurred in connection with the general administration of PMC Commercial; (iv) taxes, licenses and other statutory fees or penalties levied against or in respect of PMC Commercial in respect of services provided; (v) amounts owed by the relevant Manager under indemnification, contribution or similar arrangements; (vi) any other fees, costs and expenses incurred by the relevant Manager that are reasonably necessary for the performance by the relevant Manager of its duties and functions under the Master Services Agreement; and (vii) direct expenses of the Manager allocable to the provision of the services, including without limitation, accounting expenses and information technology expenses associated with any computer software or hardware, electronic equipment or purchased information technology services from third-party vendors that is used for PMC Commercial.

PMC Commercial will also be required to pay or reimburse the Manager for all sales taxes, use taxes, value added taxes, goods and services taxes, harmonized sales taxes, withholding taxes or other similar taxes, customs duties or other governmental charges levied or imposed by reason of the Master Services Agreement, other than income taxes, corporation taxes, capital taxes or other similar taxes payable by the Manager which are personal to the Manager.

### ***Management of CIM Urban***

The Master Services Agreement also provides that PMC Commercial will appoint the Manager or any of its affiliates, as designated by the Manager or any of its affiliates, as the manager (the "Urban GP Manager") of the general partner of CIM Urban (the "CIM Urban GP"). Generally, Urban GP Manager can only be removed as the manager of the CIM Urban GP for "cause" (as defined in the Master Services Agreement). If "cause" exists, then the independent Trust Managers or the PMC Commercial shareholders shall have the right to call a special meeting of the PMC Commercial shareholders for the purpose of voting on the removal of Urban GP Manager and upon the approval of the holders of at least 66 2/3% of the outstanding shares of PMC Commercial (excluding for this purpose any shares held by the Manager and its affiliates), may remove Urban GP Manager as the manager of the CIM Urban GP; provided, however, if any such removal vote is held after the second anniversary of the Master Services Agreement, CIM REIT shall obtain voting instructions from certain of its non-affiliated investors with respect to voting the shares beneficially owned by such non-affiliated investors and CIM REIT shall vote the number of shares beneficially owned by each such non-affiliated investor as so instructed by such non-affiliated investor. Upon removal, a replacement manager will be appointed by the independent Trust Managers.

## **Table of Contents**

### ***Management of New Business***

The Manager may develop plans and recommend new business opportunities to the Board of Trust Managers for its approval. The Manager will also make a recommendation as to (i) whether each such new business should be internally or externally managed and (ii) if externally managed, the external manager and the terms of the applicable Investment Management Agreement. If the proposed external manager is a Manager, the independent Trust Managers must approve the decision to make such new business externally managed and the terms of the applicable Investment Management Agreement. If such new business will be internally managed, the Manager will oversee the hiring of personnel and the implementation of internal management as a Transactional Service.

### ***Assignment***

The Master Services Agreement may not be assigned by PMC Commercial or the Manager without the consent of the other party, except in the case of an assignment by the Manager to an affiliate or an entity that is a successor through merger or acquisition of the business of the Manager. In addition, upon notice to PMC Commercial, the Manager may pledge, hypothecate, transfer or assign its rights under the Master Services Agreement to a bona fide lender as security, but any foreclosure of such security interest will be deemed a material breach of the Master Services Agreement.

### ***Term***

The Master Services Agreement expires on December 31, 2018; provided, however, that the Master Services Agreement will automatically be renewed for additional one-year terms until terminated in accordance with its terms. The independent Trust Managers of PMC Commercial may terminate the Master Services Agreement upon written notice of termination to the Manager if any of the following occurs:

the Manager defaults in the performance or observance of any material term, condition or covenant contained in the Master Services Agreement in a manner that results in material harm to PMC Commercial and the default continues unremedied for a period of 60 days after written notice of the breach is given to such Manager;

the Manager engages in any act of fraud, misappropriation of funds or embezzlement against PMC Commercial that results in material harm to PMC Commercial;

the Manager acts, or fails to act, in a manner constituting gross negligence, willful misconduct or reckless disregard in the performance of its obligations under the Master Services Agreement, in each case that results in material harm to PMC Commercial;

a Manager Change of Control (as defined in the Master Services Agreement) occurs that the independent Trust Managers of PMC Commercial determine is materially detrimental to PMC Commercial and its subsidiaries as a whole; or

certain events relating to the bankruptcy or insolvency of the Manager.

However, the Master Services Agreement may not be terminated by PMC Commercial due solely to the poor performance or the underperformance of PMC Commercial's operations.

The Manager may terminate the Master Services Agreement upon written notice of termination to PMC Commercial if PMC Commercial defaults in the performance or observance of any material term, condition or covenant contained in the Master Services Agreement in a manner that results in material harm to the Manager and the default continues unremedied for a period of 60 days after written notice of the breach is given to PMC Commercial. The Manager may also terminate the Master Services Agreement upon the occurrence of certain events relating to the bankruptcy or insolvency of PMC Commercial.



## **Table of Contents**

### ***Indemnification and Limitations on Liability***

Under the Master Services Agreement, the Manager will not assume any responsibility other than to provide or arrange for the provision of the services called for thereunder in good faith and will not be responsible for any action that PMC Commercial takes in following or declining to follow the advice or recommendations of the Manager. In addition, under the Master Services Agreement, the Managers and the related indemnified parties will not be liable to PMC Commercial for any act or omission, except for conduct that involved bad faith, fraud, willful misconduct, gross negligence or in the case of a criminal matter, conduct that the indemnified person knew was unlawful. The maximum amount of the aggregate liability of the Manager or any of its affiliates, or of any director, officer, agent, subcontractor, contractor, delegate, member, partner, shareholder, employee or other representative of the Manager or any of its affiliates, will be equal to the base services fee and certain of the transactional service fees previously paid by PMC Commercial in respect of services pursuant to the Master Services Agreement or any other agreement or arrangement contemplated by the Master Services Agreement in the two most recent calendar years. PMC Commercial has agreed to indemnify the Manager, its affiliates, directors, officers, agents, subcontractors, delegates, members, partners, shareholders and employees to the fullest extent permitted by law from and against any claims, liabilities, losses, damages, costs or expenses (including legal fees) incurred by an indemnified person or threatened in connection with PMC Commercial's businesses, investments and activities or in respect of or arising from the Master Services Agreement or the services provided by the Manager, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the indemnified person's bad faith, fraud or willful misconduct, gross negligence or in the case of a criminal matter, action that the indemnified person knew to have been unlawful.

### ***Outside Activities***

The Master Services Agreement will not prohibit the Manager or its affiliates from pursuing other business activities or providing services to third parties whether or not the investment objectives or policies of any such third parties are similar to those of PMC Commercial or its subsidiaries. The Manager has an allocation policy and procedure in place, and the Manager is required to operate in compliance with such allocation policy and procedure, as it may be amended from time to time.

### ***Exclusivity***

During the term of the Master Services Agreement, PMC Commercial and its subsidiaries are prohibited from engaging any other person to provide any services comparable to the Base Services or the services under any Investment Management Agreement without the prior written consent of the Manager.

## **MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of the material United States federal income tax consequences of (1) the Merger and of the Special Dividend to U.S. holders of PMC Commercial Common Shares and (2) an investment in PMC Commercial Common Shares. This summary is based on current law, is for general information only and is not tax advice. This summary is based on the Code, applicable United States Treasury regulations, and administrative and judicial interpretations thereof, each as in effect as of the date hereof, all of which are subject to change or different interpretations, possibly with retroactive effect. Neither PMC Commercial nor CIM REIT has requested, and neither plans to request, any rulings from the Internal Revenue Service (the "IRS") concerning any matter discussed in this proxy statement/prospectus and the statements in this proxy statement/prospectus are not binding on the IRS or any court. Neither PMC Commercial nor CIM REIT can provide any assurance that the tax consequences contained in this discussion will not be challenged by the IRS or, if challenged, will be sustained by a court.

**Table of Contents**

This summary is for general information only and does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular holder of PMC Commercial Common Shares in light of its investment or tax circumstances or to holders subject to special tax rules, such as:

financial institutions;

insurance companies;

broker-dealers;

regulated investment companies;

partnerships and trusts;

persons who hold PMC Commercial shares on behalf of other persons as nominees;

persons who receive PMC Commercial shares through the exercise of employee stock options or otherwise as compensation;

persons holding PMC Commercial shares as part of a straddle, hedge, conversion transaction, constructive ownership transaction, synthetic security or other integrated investment;

S corporations;

and, except to the extent discussed below:

tax-exempt organizations; and

non-U.S. holders (as defined below).

This summary assumes that holders of PMC Commercial Common Shares hold, or will hold (as applicable), their shares as a capital asset, which generally means as property held for investment.

The federal income tax treatment of holders of PMC Commercial Common Shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. In addition, the tax consequences to any particular shareholder of PMC Commercial Common Shares will depend on the shareholder's particular tax circumstances. For example, a shareholder that is a partnership or trust that has issued an equity interest to certain types of tax-exempt organizations may be subject to a special entity-level tax if PMC Commercial makes distributions attributable to excess inclusion income. See

Taxation of PMC Commercial Taxable Mortgage Pools and Excess Inclusion Income. A similar tax may be payable by persons who hold PMC Commercial shares as nominees on behalf of tax-exempt organizations. You are urged to consult your tax advisor regarding the federal, state, local and foreign income and other tax consequences to you in light of your particular investment or tax circumstances of the Merger or the Special Dividend, or of acquiring, holding, exchanging, or otherwise disposing of PMC Commercial Common Shares.

**United States Federal Income Tax Consequences of the Merger**

The Merger of CIM Merger Sub with and into PMC Merger Sub is intended to qualify as a transfer by CIM REIT of its property to PMC Commercial solely in exchange for shares of PMC Commercial, described in Section 351(a) of the Code. DLA Piper LLP (US), counsel to CIM REIT, relying on customary assumptions and representations by CIM REIT, has delivered an opinion that the Merger should qualify as a transaction described in Section 351(a) of the Code. Counsel must also deliver at the closing of the Merger a substantially similar opinion that the Merger should qualify as a transaction described in Section 351(a) of the Code in order to complete the Merger. The opinions will be based on (i) certain assumptions and representations as to factual matters made by PMC Commercial and CIM REIT, including that the Merger will be effected as described in this proxy statement/prospectus, which if incorrect may jeopardize the conclusions in the opinions, and (ii) the Code and Treasury Regulations in effect on the dates of the respective opinions, current administrative interpretations and positions of the IRS and existing court decisions.



---

**Table of Contents**

Under Code Section 351(e)(1), Section 351(a) does not apply to a transfer to an investment company. Treasury Regulation Section 1.351-1(c)(1) provides that a transfer to an investment company occurs if (i) the transfer results in diversification of the transferor's interests, and (ii) the transferee is a real estate investment trust. Because PMC Commercial is a real estate investment trust, if the Merger results in a diversification of CIM REIT's interests, the Merger would not qualify under Code Section 351(a) but would be a taxable transaction.

A transfer ordinarily results in the diversification of the transferor's interest if two or more persons transfer non-identical assets to a corporation. In the Merger, CIM REIT will transfer assets that are not identical to those owned by PMC Commercial, which could be viewed as resulting in a diversification of CIM REIT's interests. Under Treasury Regulation Section 1.351-1(c)(6)(i), a transfer of shares and securities is not treated as resulting in a diversification of the transferor's interests if the transferor transfers a diversified portfolio of shares and securities. For this purpose, a portfolio of shares and securities is diversified if (i) not more than 25% of the total value of the portfolio is invested in the shares and securities of any one issuer (the 25% test) and (ii) not more than 50% of the value of the total assets is invested in the share and securities of five or fewer issuers (the 50% test).

The Code and Treasury Regulations do not provide a diversification standard for assets other than shares and securities. The IRS has issued private letter rulings (which may not be relied on as precedent) on transfers of real estate portfolios in Section 351 transactions and has concluded that the transferred real estate portfolios were diversified portfolios and therefore that Section 351(e) did not apply. None of the rulings, however, sets forth general rules for determining whether a real estate portfolio is considered diverse for this purpose.

CIM REIT has represented that if each of the real properties to be transferred in the Merger were treated as a share or security issued by a separate issuer, its real estate portfolio would satisfy the 25% and 50% tests for portfolios of shares and securities. Further, immediately after the Merger, CIM REIT's former assets will constitute approximately 97.8% by value of all of PMC Commercial's assets.

Based on the above, counsel to CIM REIT believes that the Merger should not be viewed as resulting in a diversification of CIM REIT's interests, and, therefore, the Merger should not constitute a transfer of property to an investment company described in Code Section 351(e).

No assurance can be given that future legislation, Treasury Regulations, administrative interpretations and court decisions will not significantly change the law or the conclusions reached by counsel. In addition, any such change could apply retroactively to transactions preceding the date of change. The opinions will not be binding on the IRS or the courts, and PMC Commercial does not intend to request a ruling from the IRS with respect to the Merger. Accordingly, there can be no assurance that the IRS will not challenge such conclusion or that a court will not sustain such a challenge.

If the Merger qualifies as a transaction described in Section 351(a) of the Code, the material U.S. federal income tax consequences of the Merger will be as follows:

Neither PMC Commercial nor CIM REIT will recognize any gain or loss as a result of the Merger.

CIM REIT will not recognize any gain or loss upon the conversion of its CIM Merger Sub membership interests solely into PMC Commercial Common Shares and PMC Commercial Preferred Shares.

The aggregate tax basis of the PMC Commercial Common Shares and PMC Commercial Preferred Shares received by the CIM Parties in the Merger will equal the CIM Parties' tax basis in their partnership interests in CIM Urban.

The CIM Parties' holding period for the PMC Commercial Common Shares and PMC Commercial Preferred Shares received in the Merger will include their holding period for their partnership interests in CIM Urban.

---

**Table of Contents**

**Tax Consequences to PMC Commercial Shareholders of the Special Dividend**

The Special Dividend should be treated as a distribution from PMC Commercial to the holders of PMC Commercial Common Shares under Section 301 of the Code.

In general, a distribution (such as the Special Dividend) made to PMC Commercial's taxable U.S. holders with respect to their PMC Commercial Common Shares, other than capital gain distributions and distributions attributable to taxable REIT subsidiaries, will be ordinary income to the holders of PMC Commercial Common Shares to the extent of PMC Commercial's earnings and profits. Such a distribution will not be eligible for the dividends received deduction for shareholders that are corporations nor will it constitute qualified dividend income under the Code, meaning that the dividend will be taxed at marginal rates applicable to ordinary income rather than the special reduced rates currently applicable to qualified dividend income. The portion of an ordinary dividend that represents ordinary dividends PMC Commercial receives from a taxable REIT subsidiary will be designated as qualified dividend income to REIT shareholders. Such a qualified dividend is eligible for preferential tax rates if paid to PMC Commercial's non-corporate shareholders.

To the extent the Special Dividend exceeds PMC Commercial's earnings and profits, the distribution will be considered a return of capital. Such a distribution will be treated as a tax free distribution and will reduce the tax basis of a shareholder's PMC Commercial Common Shares by the amount of the distribution so treated. To the extent the distribution exceeds a taxable domestic shareholder's tax basis, the distribution will be taxable as gain from the sale of shares.

**United States Federal Income Taxation of PMC Commercial Following the Merger**

The remainder of this summary addresses the material U.S. federal income tax consequences of an investment in PMC Commercial's Common Shares. The law firm of DLA Piper LLP (US) has acted as tax counsel to PMC Commercial and reviewed such portion of the summary. References to PMC Commercial, mean only PMC Commercial Trust and not its subsidiaries or other lower-tier entities, except as otherwise indicated. The summary is based upon the assumption that PMC Commercial will operate itself and its subsidiaries and affiliated entities in accordance with their applicable organizational documents.

***Taxation of PMC Commercial***

PMC Commercial has elected to be treated as a REIT under Sections 856 through 860 of the Code for U.S. Federal income tax purposes commencing with its taxable year ended December 31, 1993. PMC Commercial believes that it has been organized and operated in such a manner as to qualify for taxation as a REIT and expects that it will continue to do so.

The law firm of DLA Piper LLP (US), acting as PMC Commercial's tax counsel in connection with this Merger, has rendered an opinion that, after giving effect to the Merger, PMC Commercial's proposed method of operation will enable PMC Commercial to continue to meet the requirements for qualification and taxation as a REIT under the Code. It must be emphasized that the opinion of DLA Piper LLP (US) is based on various assumptions relating to PMC Commercial's organization and operation and is conditioned upon fact-based representations and covenants made by PMC Commercial's management regarding its organization, assets, and income, and the past, present and future conduct of its business operations. While PMC Commercial intends to operate so that it will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in its circumstances, no assurance can be given by DLA Piper LLP (US) or by PMC Commercial that PMC Commercial will qualify as a REIT for any particular year. The opinion is expressed as of the date issued and does not cover subsequent periods. Counsel has no obligation to advise PMC Commercial or PMC Commercial's shareholders of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. You should be aware that opinions of counsel are not binding on the Internal Revenue Service, and no assurance can be given that the Internal Revenue Service will not challenge the conclusions set forth in such opinions.

---

**Table of Contents**

Qualification and taxation as a REIT depends on PMC Commercial's ability to meet on a continuing basis, through actual operating results, distribution levels, and diversity of share and asset ownership, various qualification requirements imposed upon REITs by the Code, the compliance with which will not be reviewed by DLA Piper LLP (US). PMC Commercial's ability to qualify as a REIT also requires that PMC Commercial satisfy certain asset tests, some of which depend upon the fair market values of assets that PMC Commercial owns directly or indirectly. Such values may not be susceptible to a precise determination. Accordingly, no assurance can be given that the actual results of PMC Commercial's operations for any taxable year will satisfy such requirements for qualification and taxation as a REIT.

***Taxation of REITs in General***

As indicated above, PMC Commercial's qualification and taxation as a REIT depends upon its ability to meet, on a continuing basis, various qualification requirements imposed upon REITs by the Code. The material qualification requirements are summarized below under

Requirements for Qualification - General. While PMC Commercial intends to operate so that it continues to qualify as a REIT, no assurance can be given that the Internal Revenue Service will not challenge PMC Commercial's qualification, or that PMC Commercial will be able to operate in accordance with the REIT requirements in the future. See Failure to Qualify.

Provided that PMC Commercial qualifies as a REIT, generally it will be entitled to a deduction for dividends that it pays to its shareholders and therefore will not be subject to federal corporate income tax on its taxable income that is currently distributed to its shareholders. This treatment substantially eliminates the double taxation at the corporate and shareholder levels that generally results from an investment in a corporation. In general, the income that PMC Commercial generates is taxed only at the shareholder level upon distribution to its shareholders.

For tax years beginning in 2013, most domestic shareholders that are individuals, trusts or estates are taxed on corporate distributions at a maximum rate of 20% (the same as long-term capital gains). With limited exceptions, however, distributions from PMC Commercial or from other entities that are taxed as REITs are generally not eligible for this rate and will continue to be taxed at rates applicable to ordinary income, which based on current rates will be as high as 39.6%. See Taxation of Shareholders - Taxation of Taxable Domestic Shareholders - Distributions.

Any net operating losses and other tax attributes generally do not pass through to PMC Commercial's shareholders, subject to special rules for certain items such as the capital gains that PMC Commercial recognizes. See Taxation of Shareholders.

If PMC Commercial qualifies as a REIT, it will nonetheless be subject to federal tax in the following circumstances:

PMC Commercial will be taxed at regular corporate rates on any undistributed taxable income, including undistributed net capital gains.

PMC Commercial may be subject to the alternative minimum tax on its items of tax preference, including any deductions of net operating losses.

If PMC Commercial has net income from prohibited transactions, which are, in general, sales or other dispositions of inventory or property held primarily for sale to customers in the ordinary course of business, other than foreclosure property, such income will be subject to a 100% tax. See Prohibited Transactions and Foreclosure Property below.

If PMC Commercial elects to treat property that it acquires in connection with a foreclosure of a mortgage loan or certain leasehold terminations as foreclosure property, PMC Commercial may thereby avoid the 100% tax on gain from a resale of that property (if the sale would otherwise constitute a prohibited transaction), but the income from the sale or operation of the property may be subject to corporate income tax at the highest applicable rate (currently 35%).

**Table of Contents**

If PMC Commercial derives excess inclusion income from an interest in certain mortgage loan securitization structures (e.g., a taxable mortgage pool or a residual interest in a real estate mortgage investment conduit, or REMIC), PMC Commercial could be subject to corporate level federal income tax at a 35% rate to the extent that such income is allocable to specified types of tax-exempt shareholders known as disqualified organizations that are not subject to unrelated business income tax. See Taxable Mortgage Pools and Excess Inclusion Income below.

If PMC Commercial should fail to satisfy the 75% gross income test or the 95% gross income test, as discussed below, but nonetheless maintain its qualification as a REIT because PMC Commercial satisfies other requirements, it will be subject to a 100% tax on an amount based on the magnitude of the failure, as adjusted to reflect the profit margin associated with its gross income.

If PMC Commercial should violate the asset tests (other than certain de minimis violations) or other requirements applicable to REITs, as described below, and yet maintain its qualification as a REIT because there is reasonable cause for the failure and other applicable requirements are met, PMC Commercial may be subject to an excise tax. In that case, the amount of the excise tax will be at least \$50,000 per failure, and, in the case of certain asset test failures, will be determined as the amount of net income generated by the assets in question multiplied by the highest corporate tax rate (currently 35%) if that amount exceeds \$50,000 per failure.

If PMC Commercial should fail to distribute during each calendar year at least the sum of (a) 85% of its REIT ordinary income for such year; (b) 95% of its REIT capital gain net income for such year; and (c) any undistributed taxable income from prior periods, PMC Commercial would be subject to a nondeductible 4% excise tax on the excess of the required distribution over the sum of (i) the amounts that PMC Commercial actually distributed and (ii) the amounts PMC Commercial retained and upon which it paid income tax at the corporate level.

PMC Commercial may be required to pay monetary penalties to the Internal Revenue Service in certain circumstances, including if PMC Commercial fails to meet record keeping requirements intended to monitor its compliance with rules relating to the composition of a REIT's shareholders, as described below in Requirements for Qualification General.

A 100% tax may be imposed on transactions between PMC Commercial and a TRS (as described below) that do not reflect arms-length terms.

If PMC Commercial acquires appreciated assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Code) in a transaction in which the adjusted tax basis of the assets in its hands is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, PMC Commercial may be subject to tax on such appreciation at the highest corporate income tax rate then applicable if PMC Commercial subsequently recognizes gain on a disposition of any such assets during the applicable period following its acquisition from the subchapter C corporation.

The earnings of PMC Commercial's subsidiaries, including any subsidiary PMC Commercial may elect to treat as a TRS, are subject to federal corporate income tax to the extent that such subsidiaries are subchapter C corporations.

In addition, PMC Commercial and its subsidiaries may be subject to a variety of taxes, including payroll taxes and state and local and foreign income, property and other taxes on its assets and operations. PMC Commercial could also be subject to tax in situations and on transactions not presently contemplated.

---

**Table of Contents**

***Requirements for Qualification General***

The Code defines a REIT as a corporation, trust or association:

- (1) that is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
- (3) that would be taxable as a domestic corporation but for its election to be subject to tax as a REIT;
- (4) that is neither a financial institution nor an insurance company subject to specific provisions of the Code;
- (5) the beneficial ownership of which is held by 100 or more persons;
- (6) in which, during the last half of each taxable year, not more than 50% in value of the outstanding shares is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include specified tax-exempt entities); and
- (7) which meets other tests described below, including with respect to the nature of its income and assets.

The Code provides that conditions (1) through (4) must be met during the entire taxable year, and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year. Conditions (5) and (6) need not be met during a corporation's initial tax year as a REIT. PMC Commercial's Declaration provides restrictions regarding the ownership and transfer of its shares, which are intended to assist PMC Commercial in satisfying the share ownership requirements described in conditions (5) and (6) above.

In addition, PMC Commercial's Declaration of Trust restricts the ownership and transfer of its shares so that PMC Commercial should continue to satisfy these requirements. The provisions of the Declaration restricting the ownership and transfer of PMC Commercial common shares are described in Description of Shares Restriction on Ownership of Shares.

To monitor compliance with the share ownership requirements, PMC Commercial is generally required to maintain records regarding the actual ownership of its shares. To do so, PMC Commercial must demand written statements each year from the record holders of significant percentages of its shares pursuant to which the record holders must disclose the actual owners of the shares (i.e., the persons required to include PMC Commercial's distributions in their gross income). PMC Commercial must maintain a list of those persons failing or refusing to comply with this demand as part of its records. PMC Commercial could be subject to monetary penalties if it fails to comply with these record-keeping requirements. If a shareholder fails or refuses to comply with the demands, the shareholder will be required by Treasury regulations to submit a statement with their tax return disclosing their actual ownership of PMC Commercial shares and other information.

In addition, a corporation generally may not elect to become a REIT unless its taxable year is the calendar year. PMC Commercial has adopted December 31 as its year-end, and thereby satisfies this requirement.

The Code provides relief from violations of the REIT gross income requirements, as described below under Income Tests, in cases where a violation is due to reasonable cause and not to willful neglect, and other requirements are met, including the payment of a penalty tax that is based upon the magnitude of the violation. In addition, certain provisions of the Code extend similar relief in the case of certain violations of the REIT asset requirements (see Asset Tests below) and other REIT requirements, again provided that the violation is due to reasonable cause and not willful neglect, and other conditions are met, including the payment of a penalty tax. If PMC Commercial fails to satisfy any of the various REIT requirements, there can be no assurance that these relief provisions would be available to enable it to maintain its qualification as a REIT, and, if such relief provisions are available, the amount of any resultant penalty tax could be substantial.



---

**Table of Contents**
***Effect of Subsidiary Entities***

*Ownership of Partnership Interests.* If PMC Commercial is a partner in an entity that is treated as a partnership for federal income tax purposes, Treasury regulations provide that PMC Commercial is deemed to own its proportionate share of the partnership's assets, and to earn its proportionate share of the partnership's income, for purposes of the asset and gross income tests applicable to REITs. PMC Commercial's proportionate share of a partnership's assets and income is based on its capital interest in the partnership (except that for purposes of the 10% value test, its proportionate share of the partnership's assets is based on its proportionate interest in the equity and certain debt securities issued by the partnership). In addition, the assets and gross income of the partnership are deemed to retain the same character in its hands. Thus, PMC Commercial's proportionate share of the assets and items of income of any of its subsidiary partnerships will be treated as its assets and items of income for purposes of applying the REIT requirements. For any period of time that PMC Commercial owns 100% of a partnership, all of such partnership's assets and income will be deemed to be PMC Commercial's for federal income tax purposes.

*Disregarded Subsidiaries.* If PMC Commercial owns a corporate subsidiary that is a qualified REIT subsidiary, that subsidiary is generally disregarded for federal income tax purposes, and all of the subsidiary's assets, liabilities and items of income, deduction and credit are treated as its assets, liabilities and items of income, deduction and credit, including for purposes of the gross income and asset tests applicable to REITs. A qualified REIT subsidiary is any corporation, other than a TRS (as described below), that is directly or indirectly wholly-owned by a REIT. Other entities that are wholly-owned by us, including single member limited liability companies that have not elected to be taxed as corporations for federal income tax purposes, are also generally disregarded as separate entities for federal income tax purposes, including for purposes of the REIT income and asset tests. Disregarded subsidiaries, along with any partnerships in which PMC Commercial holds an equity interest, are sometimes referred to herein as pass-through subsidiaries.

In the event that a disregarded subsidiary of PMC Commercial ceases to be wholly-owned—for example, if any equity interest in the subsidiary is acquired by a person other than PMC Commercial or another disregarded subsidiary of PMC Commercial—the subsidiary's separate existence would no longer be disregarded for federal income tax purposes. Instead, the subsidiary would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect PMC Commercial's ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the securities of another corporation. See [Asset Tests](#) and [Income Tests](#).

*Taxable Corporate Subsidiaries.* PMC Commercial has, and in the future may, jointly elect with any of its subsidiary corporations, whether or not wholly-owned, to treat such subsidiary corporations as taxable REIT subsidiaries, or TRSs. A REIT is permitted to own up to 100% of the stock of one or more TRSs. A domestic TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. The subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation with respect to which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. PMC Commercial generally may not own more than 10% of the securities of a taxable corporation, as measured by voting power or value, unless PMC Commercial and such corporation elect to treat such corporation as a TRS. Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRSs.

The separate existence of a TRS or other taxable corporation is not ignored for federal income tax purposes. Accordingly, a TRS or other taxable corporation generally would be subject to corporate income tax on its earnings, which may reduce the cash flow that PMC Commercial and its subsidiaries generate in the aggregate, and may reduce its ability to make distributions to its shareholders.

PMC Commercial is not treated as holding the assets of a TRS or other taxable subsidiary corporation or as receiving any income that the subsidiary earns. Rather, the stock issued by a taxable subsidiary to PMC

## **Table of Contents**

Commercial is an asset in PMC Commercial's hands, and PMC Commercial treats the distributions of earnings and profits that are paid to it from such taxable subsidiary, if any, as income. This treatment can affect PMC Commercial's income and asset test calculations, as described below. Because PMC Commercial does not include the assets and income of TRSs or other taxable subsidiary corporations in determining its compliance with the REIT requirements, it may use such entities to undertake indirectly activities that the REIT rules might otherwise preclude PMC Commercial from doing directly or through pass-through subsidiaries. For example, PMC Commercial may use TRSs or other taxable subsidiary corporations to conduct activities that give rise to certain categories of income such as management fees or activities that would be treated in its hands as prohibited transactions.

Certain restrictions imposed on TRSs are intended to ensure that such entities will be subject to appropriate levels of U.S. federal income taxation. First, a TRS with a debt-equity ratio in excess of 1.5 to 1 may not deduct interest payments made in any year to an affiliated REIT to the extent that such payments exceed, generally, 50% of the TRS's adjusted taxable income for that year (although the TRS may carry forward to, and deduct in, a succeeding year the disallowed interest amount if the 50% test is satisfied in that year). In addition, if amounts are paid to a REIT or deducted by a TRS due to transactions between the REIT and a TRS that exceed the amount that would be paid to or deducted by a party in an arm's-length transaction, the REIT generally will be subject to an excise tax equal to 100% of such excess. PMC Commercial closely monitors all of its transactions with any of its subsidiaries that are treated as a TRS in an effort to ensure that PMC Commercial does not become subject to this excise tax; however, PMC Commercial cannot assure you that it will be successful in avoiding this excise tax.

PMC Commercial may own TRSs that are organized outside of the United States. For example, PMC Commercial may hold certain investments and instruments through TRSs to the extent that direct ownership by it could jeopardize its compliance with the REIT qualification requirements, and PMC Commercial may make TRS elections with respect to certain offshore issuers of certain instruments to the extent that PMC Commercial does not own 100% of the offshore issuer's equity. Special rules apply in the case of income earned by a taxable subsidiary corporation that is organized outside of the United States. Depending upon the nature of the subsidiary's income, the parent REIT may be required to include in its taxable income an amount equal to its share of the subsidiary's income, without regard to whether, or when, such income is distributed by the subsidiary. See *Income Tests* below. A TRS that is organized outside of the United States may, depending upon the nature of its operations, be subject to little or no federal income tax. There is a specific exemption from federal income tax for non-U.S. corporations that restrict their activities in the United States to trading stock and securities (or any activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees through a resident broker, commission agent, custodian or other agent. PMC Commercial currently expects that any offshore TRSs will rely on that exemption or otherwise operate in a manner so that they will generally not be subject to federal income tax on their net income at the entity level.

### ***Income Tests***

In order to maintain qualification as a REIT, PMC Commercial must satisfy two gross income requirements on an annual basis. First, at least 75% of its gross income, excluding gross income from sales of inventory or dealer property in prohibited transactions, certain hedging transactions entered into after July 30, 2008, and certain foreign currency gains recognized after July 30, 2008, for each taxable year generally must be derived from investments relating to real property or mortgages on real property, including interest income derived from mortgage loans secured by real property (including certain types of mortgage-backed securities), rents from real property, distributions received from other REITs and gains from the sale of real estate assets, as well as specified income from temporary investments. Second, at least 95% of its gross income, excluding gross income from prohibited transactions, certain hedging transactions, and certain foreign currency gains recognized after July 30, 2008, for each taxable year must be derived from such real property investments described above.



---

**Table of Contents**

and from dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of the foregoing, which need not have any relation to real property.

Rents received by PMC Commercial will qualify as rents from real property in satisfying the gross income requirements described above only if several conditions are met. If rent is partly attributable to personal property leased in connection with a lease of real property, the portion of the rent that is attributable to the personal property will not qualify as rents from real property unless it constitutes 15% or less of the total rent received under the lease. In addition, the amount of rent must not be based in whole or in part on the income or profits of any person. Amounts received as rent, however, generally will not be excluded from rents from real property solely by reason of being based on fixed percentages of gross receipts or sales. Moreover, for rents received to qualify as rents from real property, PMC Commercial generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an independent contractor from which PMC Commercial derives no revenue. PMC Commercial is permitted, however, to perform services that are usually or customarily rendered in connection with the rental of space for occupancy only and which are not otherwise considered rendered to the occupant of the property. In addition, PMC Commercial may directly or indirectly provide non-customary services to tenants of its properties without disqualifying all of the rent from the property if the payments for such services do not exceed 1% of the total gross income from the properties. For purposes of this test, PMC Commercial is deemed to have received income from such non-customary services in an amount at least 150% of the direct cost of providing the services. Moreover, PMC Commercial is generally permitted to provide services to tenants or others through a TRS without disqualifying the rental income received from tenants for purposes of the income tests. Also, rental income will qualify as rents from real property only to the extent that PMC Commercial does not directly or constructively hold a 10% or greater interest, as measured by vote or value, in the lessee's equity.

Interest income constitutes qualifying mortgage interest for purposes of the 75% income test (as described above) to the extent that the obligation upon which such interest is paid is secured by a mortgage on real property. If PMC Commercial receives interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that PMC Commercial acquired or originated the mortgage loan, the interest income will be apportioned between the real property and the other collateral, and its income from the arrangement will qualify for purposes of the 75% income test only to the extent that the interest is allocable to the real property. Even if a loan is not secured by real property, or is under-secured, the income that it generates may nonetheless qualify for purposes of the 95% income test.

To the extent that the terms of a loan provide for contingent interest that is based on the cash proceeds realized upon the sale of the property securing the loan (which PMC Commercial refers to as a shared appreciation provision), income attributable to the participation feature will be treated as gain from sale of the underlying property, which generally will be qualifying income for purposes of both the 75% and 95% gross income tests provided that the real property is not held as inventory or dealer property or primarily for sale to customers in the ordinary course of business. To the extent that PMC Commercial derives interest income from a mortgage loan or income from the rental of real property (discussed below) where all or a portion of the amount of interest or rental income payable is contingent, such income generally will qualify for purposes of the gross income tests only if it is based upon the gross receipts or sales and not on the net income or profits of the borrower or lessee. This limitation does not apply, however, where the borrower or lessee leases substantially all of its interest in the property to tenants or subtenants to the extent that the rental income derived by the borrower or lessee, as the case may be, would qualify as rents from real property had PMC Commercial earned the income directly.

PMC Commercial and its subsidiaries may invest in mezzanine loans, which are loans secured by equity interests in an entity that directly or indirectly owns real property, rather than by a direct mortgage of the real property. The Internal Revenue Service has issued Revenue Procedure 2003-65, which provides a safe harbor applicable to mezzanine loans. Under the Revenue Procedure, if a mezzanine loan meets each of the requirements contained in the Revenue Procedure, (1) the mezzanine loan will be treated by the Internal Revenue

---

**Table of Contents**

Service as a real estate asset for purposes of the asset tests described below and (2) interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the 75% income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. PMC Commercial intends to structure any investments in mezzanine loans in a manner that generally complies with the various requirements applicable to its qualification as a REIT. However, the extent that any of its mezzanine loans do not meet all of the requirements for reliance on the safe harbor set forth in the Revenue Procedure, there can be no assurance that the Internal Revenue Service will not challenge the tax treatment of these loans.

PMC Commercial and its subsidiaries may also invest in real estate mortgage investment conduits, or REMICs, and PMC Commercial may invest in other types of commercial mortgage-backed securities, or CMBS. See below under **Asset Tests** for a discussion of the effect of such investments on PMC Commercial's qualification as a REIT.

PMC Commercial may also hold certain participation interests, including B-Notes, in mortgage loans and mezzanine loans originated by other lenders. B-Notes are interests in underlying loans created by virtue of participations or similar agreements to which the originator of the loans is a party, along with one or more participants. The borrower on the underlying loans is typically not a party to the participation agreement. The performance of this investment depends upon the performance of the underlying loans and, if the underlying borrower defaults, the participant typically has no recourse against the originator of the loans. The originator often retains a senior position in the underlying loans and grants junior participations which absorb losses first in the event of a default by the borrower. PMC Commercial generally expects to treat its participation interests as qualifying real estate assets for purposes of the REIT asset tests described below and interest that PMC Commercial derives from such investments as qualifying mortgage interest for purposes of the 75% income test. The appropriate treatment of participation interests for federal income tax purposes is not entirely certain, however, and no assurance can be given that the Internal Revenue Service will not challenge PMC Commercial's treatment of its participation interests. In the event of a determination that such participation interests do not qualify as real estate assets, or that the income that PMC Commercial derives from such participation interests does not qualify as mortgage interest for purposes of the REIT asset and income tests, PMC Commercial could be subject to a penalty tax, or could fail to qualify as a REIT. See **Taxation of REITs in General**, **Requirements for Qualification General**, **Asset Tests** and **Failure to Qualify**.

PMC Commercial may directly or indirectly receive distributions from TRSs or other corporations that are not REITs or qualified REIT subsidiaries. These distributions generally are treated as dividend income to the extent of the earnings and profits of the distributing corporation. Such distributions will generally constitute qualifying income for purposes of the 95% gross income test, but not for purposes of the 75% gross income test. Any distributions that PMC Commercial receives from a REIT, however, will be qualifying income for purposes of both the 95% and 75% income tests.

PMC Commercial may receive various fees in connection with its operations relating to the origination or purchase of whole loans secured by first mortgages and other loans secured by real property. The fees will generally be qualifying income for purposes of both the 75% and 95% gross income tests if they are received in consideration for entering into an agreement to make a loan secured by real property and the fees are not determined by income and profits. Other fees generally are not qualifying income for purposes of either gross income test and will not be favorably counted for purposes of either gross income test. Any fees earned by any TRS will not be included for purposes of the gross income tests. PMC Commercial and its subsidiaries may enter into hedging transactions with respect to one or more of its assets or liabilities. Hedging transactions could take a variety of forms, including interest rate swap agreements, interest rate cap agreements, options, futures contracts, forward rate agreements or similar financial instruments. Except to the extent provided by Treasury regulations, any income from a hedging transaction PMC Commercial entered into (1) in the normal course of its business primarily to manage risk of interest rate, inflation and/or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets, which is

**Table of Contents**

clearly identified as specified in Treasury regulations before the closing of the day on which it was acquired, originated or entered into, including gain from the sale or disposition of such a transaction, and (2) primarily to manage risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% income tests which is clearly identified as such before the closing of the day on which it was acquired, originated or entered to, will not constitute gross income for purposes of the 75% or 95% gross income tests. To the extent that PMC Commercial enters into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of the 75% or 95% gross income tests. PMC Commercial intends to structure any hedging transactions in a manner that does not jeopardize its qualification as a REIT.

If PMC Commercial fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, PMC Commercial may still qualify as a REIT for such year if PMC Commercial is entitled to relief under applicable provisions of the Code. These relief provisions will be generally available if (1) PMC Commercial's failure to meet these tests was due to reasonable cause and not due to willful neglect and (2) following its identification of the failure to meet the 75% or 95% gross income test for any taxable year, PMC Commercial files a schedule with the Internal Revenue Service setting forth each item of its gross income for purposes of the 75% or 95% gross income test for such taxable year in accordance with Treasury regulations yet to be issued. It is not possible to state whether PMC Commercial would be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions are inapplicable to a particular set of circumstances, PMC Commercial may not qualify as a REIT. As discussed above under Taxation of REITs in General, even where these relief provisions apply, the Code imposes a tax based upon the amount by which PMC Commercial fails to satisfy the particular gross income test.

***Asset Tests***

At the close of each calendar quarter, PMC Commercial must also satisfy four tests relating to the nature of its assets. First, at least 75% of the value of its total assets must be represented by some combination of real estate assets, cash, cash items, U.S. government securities and, under some circumstances, stock or debt instruments purchased with new capital. For this purpose, real estate assets include interests in real property, such as land, buildings, leasehold interests in real property, stock of other corporations that qualify as REITs and some kinds of mortgage-backed securities and mortgage loans. Assets that do not qualify for purposes of the 75% test are subject to the additional asset tests described below.

Second, the value of any one issuer's securities that PMC Commercial owns may not exceed 5% of the value of its total assets.

Third, PMC Commercial may not own more than 10% of any one issuer's outstanding securities, as measured by either voting power or value. The 5% and 10% asset tests do not apply to securities of TRSs and qualified REIT subsidiaries and the 10% asset test does not apply to straight debt having specified characteristics and to certain other securities described below. Solely for purposes of the 10% asset test, the determination of its interest in the assets of a partnership or limited liability company in which PMC Commercial owns an interest will be based on its proportionate interest in any securities issued by the partnership or limited liability company, excluding for this purpose certain securities described in the Code. Fourth, the aggregate value of all securities of taxable REIT subsidiaries that PMC Commercial holds may not exceed 25% of the value of its total assets.

Notwithstanding the general rule, as noted above, that for purposes of the REIT income and asset tests PMC Commercial is treated as owning its proportionate share of the underlying assets of a subsidiary partnership, if PMC Commercial holds indebtedness issued by a partnership, the indebtedness will be subject to, and may cause a violation of, the asset tests unless the indebtedness is a qualifying mortgage asset or other conditions are met. Similarly, although stock of another REIT is a qualifying asset for purposes of the REIT asset tests, any non-mortgage debt that is issued by another REIT may not so qualify (such debt, however, will not be treated as securities for purposes of the 10% asset test, as explained below).

**Table of Contents**

Certain relief provisions are available to REITs to satisfy the asset requirements or to maintain REIT qualification notwithstanding certain violations of the asset and other requirements. One such provision allows a REIT which fails one or more of the asset requirements to nevertheless maintain its REIT qualification if (1) the REIT provides the Internal Revenue Service with a description of each asset causing the failure; (2) the failure is due to reasonable cause and not willful neglect; (3) the REIT pays a tax equal to the greater of (a) \$50,000 per failure and (b) the product of the net income generated by the assets that caused the failure multiplied by the highest applicable corporate tax rate (currently 35%); and (4) the REIT either disposes of the assets causing the failure within six months after the last day of the quarter in which it identifies the failure, or otherwise satisfies the relevant asset tests within that time frame.

In the case of de minimis violations of the 10% and 5% asset tests, a REIT may maintain its qualification despite a violation of such requirements if (1) the value of the assets causing the violation does not exceed the lesser of 1% of the REIT's total assets and \$10,000,000, and (2) the REIT either disposes of the assets causing the failure within six months after the last day of the quarter in which it identifies the failure, or the relevant tests are otherwise satisfied within that time frame.

Certain securities will not cause a violation of the 10% asset test described above. Such securities include instruments that constitute straight debt, which includes instruments that are not in bearer form, are not convertible into equity of the issuer and do not have certain contingency features. A security does not qualify as straight debt where a REIT (or a controlled TRS of the REIT) owns other securities of the same issuer which do not qualify as straight debt, unless the value of those other securities constitute, in the aggregate, 1% or less of the total value of that issuer's outstanding securities. In addition to straight debt, the Code provides that certain other securities will not violate the 10% asset test. Such securities include (1) any loan made to an individual or an estate; (2) certain rental agreements pursuant to which one or more payments are to be made in subsequent years (other than agreements between a REIT and certain persons related to the REIT under attribution rules); (3) any obligation to pay rents from real property; (4) securities issued by governmental entities that are not dependent in whole or in part on the profits of (or payments made by) a non-governmental entity; (5) any security (including debt securities) issued by another REIT; and (6) any debt instrument issued by a partnership if the partnership's income is of a nature that it would satisfy the 75% gross income test described above under

Income Tests. In applying the 10% asset test, a debt security issued by a partnership is not taken into account to the extent, if any, of the REIT's proportionate interest in the equity and certain debt securities issued by that partnership.

Any interests that PMC Commercial holds in a REMIC will generally qualify as real estate assets and income derived from REMIC interests will generally be treated as qualifying income for purposes of the REIT income tests described above. If less than 95% of the assets of a REMIC are real estate assets, however, then only a proportionate part of its interest in the REMIC and income derived from the interest qualifies for purposes of the REIT asset and income tests. If PMC Commercial holds a residual interest in a REMIC from which PMC Commercial derives excess inclusion income, PMC Commercial will be required to either distribute the excess inclusion income or pay tax on it (or a combination of the two), even though PMC Commercial may not receive the income in cash. To the extent that distributed excess inclusion income is allocable to a particular shareholder, the income (1) would not be allowed to be offset by any net operating losses otherwise available to the shareholder; (2) would be subject to tax as unrelated business taxable income in the hands of most types of shareholders that are otherwise generally exempt from federal income tax; and (3) would result in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction of any otherwise applicable income tax treaty, to the extent allocable to most types of foreign shareholders. Moreover, any excess inclusion income that PMC Commercial receives that is allocable to specified categories of tax-exempt investors which are not subject to unrelated business income tax, such as government entities, may be subject to corporate-level income tax in PMC Commercial's hands, whether or not it is distributed. See Taxable Mortgage Pools and Excess Inclusion Income.

**Table of Contents**

To the extent that PMC Commercial holds mortgage participations or CMBS that do not represent REMIC interests, such assets may not qualify as real estate assets, and the income generated from them might not qualify for purposes of either or both of the REIT income tests, depending upon the circumstances and the specific structure of the investment.

PMC Commercial believes that its holdings of securities and other assets will comply with the foregoing REIT asset requirements, and PMC Commercial intends to monitor compliance on an ongoing basis. Certain mezzanine loans PMC Commercial makes or acquires may qualify for the safe harbor in Revenue Procedure 2003-65 pursuant to which certain loans secured by a first priority security interest in ownership interests in a partnership or limited liability company will be treated as qualifying assets for purposes of the 75% real estate asset test and the 10% vote or value test. See *Income Tests*. PMC Commercial may make some mezzanine loans that do not qualify for that safe harbor and that do not qualify as straight debt securities or for one of the other exclusions from the definition of securities for purposes of the 10% value test. PMC Commercial intends to make such investments in such a manner as not to fail the asset tests described above.

No independent appraisals will be obtained to support PMC Commercial's conclusions as to the value of its total assets or the value of any particular security or securities. Moreover, values of some assets, including instruments issued in securitization transactions, may not be susceptible to a precise determination, and values are subject to change in the future. Furthermore, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. Accordingly, there can be no assurance that the Internal Revenue Service will not contend that PMC Commercial's interests in its subsidiaries or in the securities of other issuers will not cause a violation of the REIT asset tests.

If PMC Commercial should fail to satisfy the asset tests at the end of a calendar quarter, such a failure would not cause it to lose its REIT qualification if PMC Commercial (1) satisfied the asset tests at the close of the preceding calendar quarter and (2) the discrepancy between the value of PMC Commercial's assets and the asset requirements was not wholly or partly caused by an acquisition of non-qualifying assets, but instead arose from changes in the market value of its assets. If the condition described in (2) were not satisfied, PMC Commercial still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose or by making use of relief provisions described below.

***Annual Distribution Requirements***

In order to qualify as a REIT, PMC Commercial is required to make distributions, other than capital gain distributions, to its shareholders in an amount at least equal to:

- (a) the sum of
  - (1) 90% of its REIT taxable income, computed without regard to its net capital gains and the dividends-paid deduction, and
  - (2) 90% of its net income, if any, (after tax) from foreclosure property (as described below), minus
- (b) the sum of specified items of non-cash income, including, among other things, Excess Inclusion Income. See *Taxable Mortgage Pools and Excess Inclusion Income*.

PMC Commercial generally must make these distributions in the taxable year to which they relate, or in the following taxable year if declared before PMC Commercial timely files its tax return for the year and if paid with or before the first regular distribution payment after such declaration. In order for distributions to be counted for this purpose, and to provide a tax deduction for us, the distributions must not be preferential dividends. A distribution is not a preferential dividend if the distribution is (1) pro rata among all outstanding shares of stock within a particular class and (2) in accordance with the preferences among different classes of stock as set forth in its organizational documents.

---

**Table of Contents**

To the extent that PMC Commercial distributes at least 90%, but less than 100%, of its REIT taxable income, as adjusted, PMC Commercial will be subject to tax at ordinary corporate tax rates on the retained portion. PMC Commercial may elect to retain, rather than distribute, its net long-term capital gains and pay tax on such gains. In this case, PMC Commercial could elect for its shareholders to include their proportionate shares of such undistributed long-term capital gains in income, and to receive a corresponding credit for their share of the tax that PMC Commercial paid. PMC Commercial's shareholders would then increase their adjusted basis of their shares by the difference between (a) the amounts of capital gain distributions that PMC Commercial designated and that they include in their taxable income minus (b) the tax that PMC Commercial paid on their behalf with respect to that income.

To the extent that PMC Commercial has available net operating losses carried forward from prior tax years, such losses may reduce the amount of distributions that PMC Commercial must make in order to comply with the REIT distribution requirements. Such losses, however, will generally not affect the character, in the hands of PMC Commercial's shareholders, of any distributions that are actually made as ordinary dividends or capital gains. See Taxation of Shareholders Taxation of Taxable Domestic Shareholders Distributions.

If PMC Commercial should fail to distribute during each calendar year at least the sum of (a) 85% of its REIT ordinary income for such year; (b) 95% of its REIT capital gain net income for such year; and (c) any undistributed taxable income from prior periods, PMC Commercial would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of the amounts actually distributed plus the amounts of income PMC Commercial retained and on which PMC Commercial has paid corporate income tax.

It is possible that, from time to time, PMC Commercial may not have sufficient cash to meet the distribution requirements due to timing differences between (a) its actual receipt of cash, including receipt of distributions from its subsidiaries and (b) its inclusion of items in income for federal income tax purposes. Other potential sources of non-cash taxable income include:

residual interests in REMICs or taxable mortgage pools;

loans or mortgage-backed securities held as assets that are issued at a discount and require the accrual of taxable economic interest in advance of receipt in cash; and

loans on which the borrower is permitted to defer cash payments of interest, and distressed loans on which PMC Commercial may be required to accrue taxable interest income even though the borrower is unable to make current servicing payments in cash.

In the event that such timing differences occur, in order to meet the distribution requirements, it might be necessary for PMC Commercial to arrange for short-term, or possibly long-term, borrowings, or to pay distributions in the form of taxable in-kind distributions of property.

PMC Commercial may be able to rectify certain failures to meet the distribution requirements for a year by paying deficiency dividends to shareholders in a later year, which may be included in its deduction for distributions paid for the earlier year. In this case, PMC Commercial may be able to avoid losing REIT qualification or being taxed on amounts distributed as deficiency dividends. PMC Commercial will be required to pay interest and a penalty based on the amount of any deduction taken for deficiency dividends. With the consent of its shareholders, PMC Commercial may report and deduct a consent dividend in order to satisfy the distribution requirement. A consent dividend is treated for federal income tax purposes as a distribution to shareholders occurring on the last day of the REIT's taxable year and a shareholder contribution to the REIT on the same day.

***Failure to Qualify***

If PMC Commercial fails to satisfy one or more requirements for REIT qualification other than the gross income or asset tests, PMC Commercial could avoid disqualification if its failure is due to reasonable cause and not to willful

**Table of Contents**

neglect and PMC Commercial pays a penalty of \$50,000 for each such failure. Relief provisions are available for failures of the gross income tests and asset tests, as described above in **Income Tests** and **Asset Tests**.

If PMC Commercial fails to qualify for taxation as a REIT in any taxable year, and the relief provisions described above do not apply, PMC Commercial would be subject to tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. PMC Commercial cannot deduct distributions to shareholders in any year in which PMC Commercial is not a REIT, nor would it be required to make distributions in such a year. In this situation, to the extent of current and accumulated earnings and profits, distributions to domestic shareholders that are individuals, trusts and estates will generally be taxable at capital gains rates. In addition, subject to the limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless PMC Commercial is entitled to relief under specific statutory provisions, PMC Commercial would also be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year during which PMC Commercial lost qualification. It is not possible to state whether, in all circumstances, PMC Commercial would be entitled to this statutory relief.

***Prohibited Transactions***

Net income that PMC Commercial derives from a prohibited transaction is subject to a 100% tax. The term prohibited transaction generally includes a sale or other disposition of property (other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of a trade or business. PMC Commercial intends to conduct its operations so that no asset that PMC Commercial owns (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of its business. Whether property is held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances. No assurance can be given that any property that PMC Commercial sells will not be treated as property held for sale to customers, or that PMC Commercial can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will potentially be subject to tax in the hands of the corporation at regular corporate rates, nor does the 100% tax apply to sales that qualify for a safe harbor as described in Section 857(b)(6) of the Code.

***Penalty Tax***

Any redetermined rents, redetermined deductions or excess interest PMC Commercial generates will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of any services furnished to any of its tenants by one of its taxable REIT subsidiaries, and redetermined deductions and excess interest represent any amounts that are deducted by a taxable REIT subsidiary for amounts paid to PMC Commercial that are in excess of the amounts that would have been deducted based on arm's-length negotiations. Rents PMC Commercial receives will not constitute redetermined rents if they qualify for certain safe harbor provisions contained in the Code. Generally, services offered to tenants of PMC Commercial by an independent contractor shall not result in redetermined rents or any resultant penalty tax.

From time to time PMC Commercial's taxable REIT subsidiaries may provide services to PMC Commercial's tenants. PMC Commercial intends to set any fees paid to its taxable REIT subsidiaries for such services at arm's-length rates, although the fees paid may not satisfy the safe-harbor provisions described above. These determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion, PMC Commercial would be required to pay a 100% penalty tax on the excess of an arm's-length fee for tenant services over the amount actually paid.

***Foreclosure Property***

Foreclosure property is real property and any personal property incident to such real property (1) that PMC Commercial acquires as the result of having bid on the property at foreclosure, or having otherwise reduced the

**Table of Contents**

property to ownership or possession by agreement or process of law, after a default (or upon imminent default) on a lease of the property or a mortgage loan held by PMC Commercial and secured by the property; (2) for which PMC Commercial acquired the related loan or lease at a time when default was not imminent or anticipated; and (3) with respect to which PMC Commercial made a proper election to treat the property as foreclosure property. PMC Commercial generally will be subject to tax at the maximum corporate rate (currently 35%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that would otherwise be qualifying income for purposes of the 75% gross income test. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property. To the extent that PMC Commercial receives any income from foreclosure property that does not qualify for purposes of the 75% gross income test, PMC Commercial intends to make an election to treat the related property as foreclosure property.

***Derivatives and Hedging Transactions***

PMC Commercial and its subsidiaries may enter into hedging transactions with respect to interest rate exposure on one or more of its assets or liabilities. Hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap agreements, interest rate cap agreements, options, futures contracts, forward rate agreements or similar financial instruments. Except to the extent provided by Treasury regulations, any income from a hedging transaction PMC Commercial entered into (1) in the normal course of its business primarily to manage risk of interest rate, inflation and/or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets, which is clearly identified as specified in Treasury regulations before the closing of the day on which it was acquired, originated, or entered into, including gain from the sale or disposition of such a transaction and (2) primarily to manage risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% income tests which is clearly identified as such before the closing of the day on which it was acquired, originated, or entered into, will not constitute gross income for purposes of the 75% or 95% gross income tests. To the extent that PMC Commercial enters into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of the 75% or 95% gross income tests. PMC Commercial intends to structure any hedging transactions in a manner that does not jeopardize its qualification as a REIT. PMC Commercial may conduct some or all of its hedging activities through a TRS or other corporate entity, the income from which may be subject to federal income tax, rather than by participating in the arrangements directly or through pass-through subsidiaries. No assurance can be given, however, that PMC Commercial's hedging activities will not give rise to income that does not qualify for purposes of either or both of the REIT gross income tests, or that its hedging activities will not adversely affect its ability to satisfy the REIT qualification requirements.

***Taxable Mortgage Pools and Excess Inclusion Income***

An entity, or a portion of an entity, may be classified as a taxable mortgage pool, or TMP, under the Code if:

substantially all of its assets consist of debt obligations or interests in debt obligations;

more than 50% of those debt obligations are real estate mortgages or interests in real estate mortgages as of specified testing dates;

the entity has issued debt obligations (liabilities) that have two or more maturities; and

the payments required to be made by the entity on its debt obligations (liabilities) bear a relationship to the payments to be received by the entity on the debt obligations that it holds as assets.

Under regulations issued by the U.S. Treasury Department, if less than 80% of the assets of an entity (or a portion of an entity) consist of debt obligations, these debt obligations are considered not to comprise substantially all of its assets, and therefore the entity would not be treated as a TMP. PMC Commercial's financing and securitization arrangements may give rise to TMPs with the consequences as described below.



**Table of Contents**

Where an entity, or a portion of an entity, is classified as a TMP, it is generally treated as a taxable corporation for federal income tax purposes. In the case of a REIT, or a portion of a REIT, or a disregarded subsidiary of a REIT, that is a TMP, however, special rules apply. The TMP is not treated as a corporation that is subject to corporate income tax, and the TMP classification does not directly affect the tax qualification of the REIT. Rather, the consequences of the TMP classification would, in general, except as described below, be limited to the shareholders of the REIT.

A portion of the REIT's income from the TMP, which might be non-cash accrued income, could be treated as excess inclusion income. Under recently issued Internal Revenue Service guidance, the REIT's excess inclusion income, including any excess inclusion income from a residual interest in a REMIC, must be allocated among its shareholders in proportion to distributions paid. PMC Commercial is required to notify its shareholders of the amount of excess inclusion income allocated to them. A shareholder's share of PMC Commercial's excess inclusion income:

cannot be offset by any net operating losses otherwise available to the shareholder;

is subject to tax as unrelated business taxable income in the hands of most types of shareholders that are otherwise generally exempt from federal income tax; and

results in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction for any otherwise applicable income tax treaty or other exemption, to the extent allocable to most types of foreign shareholders.

See **Taxation of Shareholders.** To the extent that excess inclusion income is allocated from a TMP to a tax-exempt shareholder of a REIT that is not subject to unrelated business income tax (such as a government entity), the REIT will be subject to tax on this income at the highest applicable corporate tax rate (currently 35%). The manner in which excess inclusion income is calculated, or would be allocated to shareholders, including allocations among shares of different classes of share, remains unclear under current law. As required by Internal Revenue Service guidance, PMC Commercial intends to make such determinations using a reasonable method. Tax-exempt investors, foreign investors and taxpayers with net operating losses should carefully consider the tax consequences described above, and are urged to consult their tax advisors.

If a subsidiary partnership of PMC Commercial that PMC Commercial does not wholly own, directly or through one or more disregarded entities, were a TMP, the foregoing rules would not apply. Rather, the partnership that is a TMP would be treated as a corporation for federal income tax purposes and potentially could be subject to corporate income tax or withholding tax. In addition, this characterization would alter PMC Commercial's income and asset test calculations and could adversely affect its compliance with those requirements. PMC Commercial intends to monitor the structure of any TMPs (including whether a TRS election might be made in respect of any such TMP) in which PMC Commercial has an interest to ensure that they will not adversely affect PMC Commercial's qualification as a REIT.

**Taxation of Shareholders**

***Taxation of Taxable Domestic Shareholders***

**Distributions.** So long as PMC Commercial qualifies as a REIT, the distributions that PMC Commercial makes to its taxable domestic shareholders out of current or accumulated earnings and profits that it does not designate as capital gain distributions will generally be taken into account by shareholders as ordinary income and will not be eligible for the dividends received deduction for corporations. With limited exceptions, PMC Commercial's distributions are not eligible for taxation at the preferential income tax rates (i.e., the 20% maximum federal rate) for qualified distributions received by domestic shareholders that are individuals, trusts and estates from taxable C corporations. Such shareholders, however, are taxed at the preferential rates on distributions designated by and received from REITs to the extent that the distributions are attributable to:

income retained by the REIT in the prior taxable year on which the REIT was subject to corporate level income tax (less the amount of tax);

---

**Table of Contents**

distributions received by the REIT from TRSs or other taxable C corporations; or

income in the prior taxable year from the sales of built-in-gain property acquired by the REIT from C corporations in carryover basis transactions (less the amount of corporate tax on such income).

Distributions that PMC Commercial designates as capital gain dividends will generally be taxed to its shareholders as long-term capital gains, to the extent that such distributions do not exceed its actual net capital gain for the taxable year, without regard to the period for which the shareholder that receives such distribution has held its shares. PMC Commercial may elect to retain and pay taxes on some or all of its net long-term capital gains, in which case provisions of the Code will treat its shareholders as having received, solely for tax purposes, PMC Commercial's undistributed capital gains, and the shareholders will receive a corresponding credit for taxes that PMC Commercial paid on such undistributed capital gains. See Taxation of PMC Commercial Annual Distribution Requirements. Corporate shareholders may be required to treat up to 20% of some capital gain distributions as ordinary income. Long-term capital gains are generally taxable at maximum federal rates of 20% in the case of shareholders that are individuals, trusts and estates, and 35% in the case of shareholders that are corporations. Capital gains attributable to the sale of depreciable real property held for more than 12 months are subject to a 25% maximum federal income tax rate for taxpayers who are taxed as individuals, to the extent of previously claimed depreciation deductions.

Distributions in excess of PMC Commercial's current and accumulated earnings and profits will generally represent a return of capital and will not be taxable to a shareholder to the extent that the amount of such distributions do not exceed the adjusted basis of the shareholder's shares in respect of which the distributions were made. Rather, the distribution will reduce the adjusted basis of the shareholder's shares. To the extent that such distributions exceed the adjusted basis of a shareholder's shares, the shareholder generally must include such distributions in income as long-term capital gain, or short-term capital gain if the shares have been held for one year or less. In addition, any distribution that PMC Commercial declares in October, November or December of any year and that is payable to a shareholder of record on a specified date in any such month will be treated as both paid by PMC Commercial and received by the shareholder on December 31 of such year, provided that PMC Commercial actually pays the distribution before the end of January of the following calendar year.

To the extent that PMC Commercial has available net operating losses and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions that PMC Commercial must make in order to comply with the REIT distribution requirements. See Taxation of PMC Commercial Annual Distribution Requirements. Such losses, however, are not passed through to shareholders and do not offset income of shareholders from other sources, nor would such losses affect the character of any distributions that PMC Commercial makes, which are generally subject to tax in the hands of shareholders to the extent that PMC Commercial has current or accumulated earnings and profits.

If excess inclusion income from a taxable mortgage pool or REMIC residual interest is allocated to any shareholder, that income will be taxable in the hands of the shareholder and would not be offset by any net operating losses of the shareholder that would otherwise be available. See Taxation of PMC Commercial Taxable Mortgage Pools and Excess Inclusion Income. As required by Internal Revenue Service guidance, PMC Commercial intends to notify its shareholders if a portion of a distribution paid by PMC Commercial is attributable to excess inclusion income.

*Dispositions of PMC Commercial Shares.* In general, capital gains recognized by individuals, trusts and estates upon the sale or disposition of PMC Commercial shares will be subject to a maximum federal income tax rate of 20% if the shares are held for more than one year, and will be taxed at ordinary income rates of up to 39.6% if the shares are held for one year or less. Gains recognized by shareholders that are corporations are subject to federal income tax at a maximum rate of 35%, whether or not such gains are classified as long-term capital gains. Capital losses recognized by a shareholder upon the disposition of PMC Commercial shares that were held for more than one year at the time of disposition will be considered long-term capital losses, and are

---

**Table of Contents**

generally available only to offset capital gain income of the shareholder but not ordinary income (except in the case of individuals, who may offset up to \$3,000 of ordinary income each year). In addition, any loss upon a sale or exchange of PMC Commercial shares by a shareholder who has held the shares for six months or less, after applying holding period rules, will be treated as a long-term capital loss to the extent of distributions that PMC Commercial makes that are required to be treated by the shareholder as long-term capital gain.

If an investor recognizes a loss upon a subsequent disposition of PMC Commercial shares or other securities in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury regulations involving reportable transactions could apply, with a resulting requirement to separately disclose the loss-generating transaction to the Internal Revenue Service. These regulations, though directed towards tax shelters, are broadly written and apply to transactions that would not typically be considered tax shelters. The Code imposes significant penalties for failure to comply with these requirements. Shareholders should consult their tax advisor concerning any possible disclosure obligation with respect to the receipt or disposition of PMC Commercial shares or securities or transactions that PMC Commercial might undertake directly or indirectly. Moreover, shareholders should be aware that PMC Commercial and other participants in the transactions in which PMC Commercial is involved (including their advisors) might be subject to disclosure or other requirements pursuant to these regulations.

*Passive Activity Losses and Investment Interest Limitations.* Distributions that PMC Commercial makes and gain arising from the sale or exchange by a domestic shareholder of PMC Commercial shares will not be treated as passive activity income. As a result, shareholders will not be able to apply any passive losses against income or gain relating to PMC Commercial shares. To the extent that distributions PMC Commercial makes do not constitute a return of capital, they will be treated as investment income for purposes of computing the investment interest limitation.

*Medicare Tax on Unearned Income.* The Health Care and Education Reconciliation Act of 2010 requires certain U.S. shareholders that are taxed as individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock for taxable years beginning after December 31, 2012.

***Taxation of Foreign Shareholders***

The following is a summary of certain U.S. federal income and estate tax consequences of the ownership and disposition of PMC Commercial shares applicable to non-U.S. holders. A non-U.S. holder is any person other than:

a citizen or resident of the United States;

a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, or of any state thereof, or the District of Columbia;

an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or

a trust if a United States court is able to exercise primary supervision over the administration of such trust and one or more United States fiduciaries have the authority to control all substantial decisions of the trust.

If a partnership, including for this purpose any entity that is treated as a partnership for U.S. federal income tax purposes, holds PMC Commercial common shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. An investor that is a partnership and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of the acquisition, ownership and disposition of PMC Commercial common shares.

## **Table of Contents**

The following discussion is based on current law, and is for general information only. It addresses only selected, and not all, aspects of U.S. federal income and estate taxation.

*Ordinary Dividends.* The portion of distributions received by non-U.S. holders (1) that is payable out of PMC Commercial's earnings and profits; (2) which is not attributable to PMC Commercial's capital gains; and (3) which is not effectively connected with a U.S. trade or business of the non-U.S. holder, will be subject to U.S. withholding tax at the rate of 30%, unless reduced or eliminated by treaty. Reduced treaty rates and other exemptions are not available to the extent that income is attributable to excess inclusion income allocable to the foreign shareholder. Accordingly, PMC Commercial will withhold at a rate of 30% on any portion of a distribution that is paid to a non-U.S. holder and attributable to that holder's share of PMC Commercial's excess inclusion income. See Taxation of PMC Commercial Taxable Mortgage Pools and Excess Inclusion Income. As required by Internal Revenue Service guidance, PMC Commercial intends to notify its shareholders if a portion of a distribution paid by PMC Commercial is attributable to excess inclusion income.

In general, non-U.S. holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of PMC Commercial shares. In cases where the dividend income from a non-U.S. holder's investment in PMC Commercial shares is, or is treated as, effectively connected with the non-U.S. holder's conduct of a U.S. trade or business, the non-U.S. holder generally will be subject to U.S. federal income tax at graduated rates, in the same manner as domestic shareholders are taxed with respect to such distributions. Such income must generally be reported on a U.S. income tax return filed by or on behalf of the non-U.S. holder. The income may also be subject to the 30% branch profits tax in the case of a non-U.S. holder that is a corporation.

*Non-Dividend Distributions.* Unless PMC Commercial shares constitute a U.S. real property interest, or USRPI, distributions that PMC Commercial makes that are not out of its earnings and profits will not be subject to U.S. income tax. If PMC Commercial cannot determine at the time a distribution is made whether or not the distribution will exceed current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to ordinary dividends. The non-U.S. holder may seek a refund from the Internal Revenue Service of any amounts withheld if it is subsequently determined that the distribution was, in fact, in excess of PMC Commercial's current and accumulated earnings and profits. If PMC Commercial shares constitute a USRPI, as described below, distributions that PMC Commercial makes in excess of the sum of (a) the shareholder's proportionate share of PMC Commercial's earnings and profits, plus (b) the shareholder's basis in its shares, will be taxed under the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, at the rate of tax, including any applicable capital gains rates, that would apply to a domestic shareholder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a refundable withholding at a rate of 10% of the amount by which the distribution exceeds the shareholder's share of PMC Commercial's earnings and profits.

*Capital Gain Distributions.* Under FIRPTA, a distribution that PMC Commercial makes to a non-U.S. holder, to the extent attributable to gains from dispositions of USRPIs that PMC Commercial held directly or through pass-through subsidiaries, or USRPI capital gains, will, except as described below, be considered effectively connected with a U.S. trade or business of the non-U.S. holder and will be subject to U.S. income tax at the rates applicable to U.S. individuals or corporations, without regard to whether PMC Commercial designates the distribution as a capital gain distribution. See above under Taxation of Foreign Shareholders Ordinary Dividends, for a discussion of the consequences of income that is effectively connected with a U.S. trade or business. In addition, PMC Commercial will be required to withhold tax equal to 35% of the amount of distributions to the extent the distributions constitute USRPI capital gains. Distributions subject to FIRPTA may also be subject to a 30% branch profits tax in the hands of a non-U.S. holder that is a corporation. A distribution is not a USRPI capital gain if PMC Commercial held an interest in the underlying asset solely as a creditor. Capital gain distributions received by a non-U.S. holder that are attributable to dispositions of PMC Commercial's assets other than USRPIs are not subject to U.S. federal income or withholding tax, unless (1) the gain is effectively connected with the non-U.S. holder's U.S. trade or business, in which case the non-U.S. holder

**Table of Contents**

would be subject to the same treatment as U.S. holders with respect to such gain or (2) the non-U.S. holder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the non-U.S. holder will incur a 30% tax on his or her capital gains.

A capital gain distribution that would otherwise have been treated as a USRPI capital gain will not be so treated or be subject to FIRPTA, and generally will not be treated as income that is effectively connected with a U.S. trade or business, and instead will be treated in the same manner as an ordinary dividend (see Taxation of Foreign Shareholders Ordinary Dividends ), if (1) the capital gain distribution is received with respect to a class of stock that is regularly traded on an established securities market located in the United States and (2) the recipient non-U.S. holder does not own more than 5% of that class of stock at any time during the year ending on the date on which the capital gain distribution is received.

*Dispositions of PMC Commercial Shares.* Unless PMC Commercial shares constitute a USRPI, a sale of PMC Commercial shares by a non-U.S. holder generally will not be subject to U.S. taxation under FIRPTA. PMC Commercial shares will not be treated as a USRPI if less than 50% of PMC Commercial's assets throughout a prescribed testing period consist of interests in real property located within the United States, excluding, for this purpose, interests in real property solely in a capacity as a creditor.

Even if the foregoing 50% test is not met, PMC Commercial shares nonetheless will not constitute a USRPI if PMC Commercial is a domestically-controlled qualified investment entity. A domestically-controlled qualified investment entity includes a REIT, less than 50% of value of which is held directly or indirectly by non-U.S. holders at all times during a specified testing period. PMC Commercial believes that it is a domestically-controlled qualified investment entity, and that a sale of PMC Commercial shares should not be subject to taxation under FIRPTA. If PMC Commercial shares constitute a USRPI and it does not constitute a domestically-controlled qualified investment entity, a non-U.S. holder's sale of PMC Commercial common shares nonetheless would not be subject to tax under FIRPTA as a sale of a USRPI, provided that the selling non-U.S. holder held 5% or less of outstanding PMC Commercial Common Shares at all times during a specified testing period.

If gain on the sale of PMC Commercial shares were subject to taxation under FIRPTA, the non-U.S. holder would be required to file a U.S. federal income tax return and would be subject to the same treatment as a U.S. shareholder with respect to such gain, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals, and the purchaser of the shares could be required to withhold 10% of the purchase price and remit such amount to the Internal Revenue Service.

Gain from the sale of PMC Commercial shares that would not otherwise be subject to FIRPTA will nonetheless be taxable in the United States to a non-U.S. holder in two cases: (1) if the non-U.S. holder's investment in PMC Commercial shares is effectively connected with a U.S. trade or business conducted by such non-U.S. holder, the non-U.S. holder will be subject to the same treatment as a U.S. shareholder with respect to such gain or (2) if the non-U.S. holder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a tax home in the United States, the nonresident alien individual will be subject to a 30% tax on the individual's capital gain. In addition, even if PMC Commercial is a domestically controlled qualified investment entity, upon disposition of PMC Commercial shares, a non-U.S. holder may be treated as having gain from the sale or exchange of a USRPI if the non-U.S. holder (1) disposes of PMC Commercial common shares within a 30-day period preceding the ex-dividend date of a distribution, any portion of which, but for the disposition, would have been treated as gain from the sale or exchange of a USRPI and (2) acquires, or enters into a contract or option to acquire, other shares of PMC Commercial common shares within 30 days after such ex-dividend date.

*Estate Tax.* If PMC Commercial shares are owned or treated as owned by an individual who is not a citizen or resident (as specially defined for U.S. federal estate tax purposes) of the United States at the time of such individual's death, the shares will be includable in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise, and may therefore be subject to U.S. federal estate tax.

---

**Table of Contents**

Withholding on Foreign Financial Institutions and Non-U.S. Shareholders. The Foreign Account Tax Compliance Act ( FATCA ) is contained in Sections 1471 through 1474 of the Code (and the Treasury Regulations thereunder) and was originally enacted in 2010 as part of the Hiring Incentives to Restore Employment Act. FATCA will impose a U.S. withholding tax at a 30% rate on dividends paid after June 30, 2014 and on proceeds from the sale of PMC Commercial shares paid after December 31, 2016 to foreign financial institutions (as defined under FATCA) and certain other foreign entities if certain due diligence and disclosure requirements related to U.S. accounts with, or ownership of, such entities are not satisfied or an exemption does not apply. If FATCA withholding is imposed, non-U.S. beneficial owners that are otherwise eligible for an exemption from, or a reduction of, U.S. withholding tax with respect to such distributions and sale proceeds would be required to seek a refund from the Internal Revenue Service to obtain the benefit of such exemption or reduction. Any payment made by PMC Commercial that is subject to withholding under FATCA or otherwise will be net of the amount required to be withheld.

***Taxation of Tax-Exempt Shareholders***

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from federal income taxation. However, they may be subject to taxation on their unrelated business taxable income, or UBTI. While some investments in real estate may generate UBTI, the Internal Revenue Service has ruled that dividend distributions from a REIT to a tax-exempt entity do not constitute UBTI. Based on that ruling, and provided that (1) a tax-exempt shareholder has not held PMC Commercial shares as debt financed property within the meaning of the Code (i.e., where the acquisition or holding of the property is financed through a borrowing by the tax-exempt shareholder) and (2) PMC Commercial shares are not otherwise used in an unrelated trade or business, distributions that PMC Commercial makes and income from the sale of PMC Commercial shares generally should not give rise to UBTI to a tax-exempt shareholder.

To the extent, however, that PMC Commercial is (or a part of PMC Commercial, or a disregarded subsidiary of PMC Commercial is) deemed to be a TMP, or if PMC Commercial holds residual interests in a REMIC, a portion of the distributions paid to a tax-exempt shareholder that is allocable to excess inclusion income may be treated as UBTI. PMC Commercial anticipates that its investments may generate excess inclusion income. If excess inclusion income is allocable to some categories of tax-exempt shareholders that are not subject to UBTI, such as governmental investors, PMC Commercial will be subject to corporate level tax on such income. See Taxation of PMC Commercial Taxable Mortgage Pools and Excess Inclusion Income. As required by Internal Revenue Service guidance, PMC Commercial intends to notify its shareholders if a portion of a distribution paid by PMC Commercial is attributable to excess inclusion income.

Tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Code are subject to different UBTI rules, which generally require such shareholders to characterize distributions that PMC Commercial makes as UBTI.

In certain circumstances, a pension trust that owns more than 10% of PMC Commercial shares could be required to treat a percentage of its distributions as UBTI, if PMC Commercial is a pension-held REIT. PMC Commercial will not be a pension-held REIT unless either (1) one pension trust owns more than 25% of the value of PMC Commercial shares or (2) a group of pension trusts, each individually holding more than 10% of the value of PMC Commercial shares, collectively owns more than 50% of PMC Commercial shares. Certain restrictions on ownership and transfer of PMC Commercial shares should generally prevent a tax-exempt entity from owning more than 10% of the value of PMC Commercial shares and should generally prevent PMC Commercial from becoming a pension-held REIT.

Tax-exempt shareholders are urged to consult their tax advisors regarding the federal, state, local and foreign income and other tax consequences of owning PMC Commercial shares.

## **Table of Contents**

### **Backup Withholding and Information Reporting**

PMC Commercial will report to its domestic shareholders and the Internal Revenue Service the amount of dividends paid during each calendar year and the amount of any tax withheld. Under the backup withholding rules, a domestic shareholder may be subject to backup withholding with respect to dividends paid unless the holder is a corporation or comes within other exempt categories and, when required, demonstrates this fact or provides a taxpayer identification number or social security number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A domestic shareholder that does not provide his or her correct taxpayer identification number or social security number may also be subject to penalties imposed by the Internal Revenue Service. Backup withholding is not an additional tax. In addition, PMC Commercial may be required to withhold a portion of a capital gain distribution to any domestic shareholder who fails to certify its non-foreign status.

PMC Commercial must report annually to the Internal Revenue Service and to each non-U.S. shareholder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. shareholder resides under the provisions of an applicable income tax treaty. A non-U.S. shareholder may be subject to backup withholding unless applicable certification requirements are met.

Payment of the proceeds of a sale of PMC Commercial common shares within the U.S. is subject to both backup withholding and information reporting unless the beneficial owner certifies under penalties of perjury that it is a non-U.S. shareholder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. person) or the holder otherwise establishes an exemption. Payment of the proceeds of a sale of PMC Commercial common shares conducted through certain U.S. related financial intermediaries is subject to information reporting (but not backup withholding) unless the financial intermediary has documentary evidence in its records that the beneficial owner is a non-U.S. shareholder and specified conditions are met or an exemption is otherwise established. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

### **Other Tax Considerations**

#### ***Legislative or Other Actions Affecting REITs***

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department. Changes to the federal tax laws and interpretations thereof could adversely affect an investment in PMC Commercial shares.

#### ***State, Local and Foreign Taxes***

PMC Commercial and its subsidiaries and shareholders may be subject to state, local or foreign taxation in various jurisdictions including those in which it or they transact business, own property or reside. PMC Commercial may own real property assets located in numerous jurisdictions, and may be required to file tax returns in some or all of those jurisdictions. PMC Commercial's state, local or foreign tax treatment and that of its shareholders may not conform to the federal income tax treatment discussed above. PMC Commercial may own foreign real estate assets and pay foreign property taxes, and dispositions of foreign property or operations involving, or investments in, foreign real estate assets may give rise to foreign income or other tax liability in amounts that could be substantial. Any foreign taxes that PMC Commercial incurs do not pass through to shareholders as a credit against their U.S. federal income tax liability. Prospective investors should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws on an investment in PMC Commercial shares.

Shareholders should consult their tax advisor for a complete analysis of the effect of the Merger on their federal, state and local and/or foreign taxes.

**Table of Contents**

**BUSINESS OF CIM URBAN**

CIM Urban and its subsidiaries invest primarily in substantially stabilized real estate and real estate-related assets in high density, high barrier to entry urban markets throughout North America, which CIM Group has targeted for opportunistic investment which are likely, in CIM Group's opinion, to experience above-average rent growth relative to national averages and/or their neighboring CBDs. CIM Urban is managed by an affiliate of CIM Group, a related party. CIM Group is an integrated, full-service investment manager with in-house research, acquisition, investment, development, finance, leasing and management capabilities.

As of June 30, 2013, CIM Urban's portfolio consisted of 31 assets, all of which are fee simple properties except one leasehold property and one mortgage loan asset. As of June 30, 2013, CIM Urban's 19 office properties, totaling approximately 5.4 million rentable square feet, were 86.3% occupied by 365 tenants; CIM Urban's multifamily properties, composed of 930 units, were 96.3% occupied; and CIM Urban's hotels which have a total of 665 rooms, had revenue per available room (RevPAR) of \$104.03 for the six months ended June 30, 2013, which represents a 0.6% increase compared to the same 2012 period. CIM Urban's office portfolio contributed approximately 74.1% of total revenue for the six months ended June 30, 2013, while its hotel and loan portfolio contributed approximately 17.4%, and its multifamily portfolio contributed approximately 8.5%.

CIM Urban's office, multifamily and hotel assets are located in 11 U.S. markets. The breakdown by segment, market and submarket, as of June 30, 2013, is as follows:

<sup>3</sup> Excluding CIM Urban's investment in the First Mortgage of the LAX Holiday Inn.



**Table of Contents****Overview of CIM Urban s Portfolio as of June 30, 2013**

Property Description	Market	Sub-Market	Office and Retail Rentable Square Feet	Multi-family Units	Hotel Rooms
<b>Office Portfolio:</b>					
<i>Properties (19)</i>					
BB&T Center	Charlotte, NC	Uptown	553,056		
1 Kaiser Plaza	Oakland, CA	Lake Merritt	532,969		
2101 Webster Street	Oakland, CA	Lake Merritt	472,871		
980 9th Street	Sacramento, CA	Downtown/Midtown	453,547		
211 Main Street	San Francisco, CA	S Financial District	415,120		
370 L'Enfant Promenade	District of Columbia	Southwest	407,321		
999 N Capitol Street	District of Columbia	Capitol Hill	321,980		
899 N Capitol Street	District of Columbia	Capitol Hill	314,317		
800 N Capitol Street	District of Columbia	Capitol Hill	306,194		
1901 Harrison Street	Oakland, CA	Lake Merritt	272,952		
830 1st Street	District of Columbia	Capitol Hill	247,337		
1333 Broadway	Oakland, CA	City Center	239,801		
2100 Franklin Street	Oakland, CA	Lake Merritt	209,837		
11620 Wilshire Boulevard	Los Angeles, CA	West LA	191,075		
Penn Field	Austin, TX	South	181,746		
7083 Hollywood Boulevard	Los Angeles, CA	Hollywood/Sunset	82,180		
260 Townsend	San Francisco, CA	South of Market	66,943		
11600 Wilshire Boulevard	Los Angeles, CA	West LA	55,543		
Civic Center	Orange County, CA	Central	37,116		
			<b>5,361,905</b>		
<i>Ancillary Properties (3 Properties)</i>					
901 N Capitol Street(1)	District of Columbia	Capitol Hill			
1010 8th St Parking	Sacramento, CA	Downtown/Midtown	12,275		
2353 Webster Street	Oakland, CA	Lake Merritt			
			<b>12,275</b>		
<b>Total Office Portfolio (22 Properties)</b>			<b>5,374,180</b>		
<b>Multifamily Portfolio:</b>					
4649 Cole Avenue	Dallas, TX	Oaklawn		334	
Memorial Hills	Houston, TX	Montrose/River Oaks		308	
47 E 34th Street	New York, NY	Midtown West		110	
3636 McKinney Avenue	Dallas, TX	Central Dallas		103	
3839 McKinney Avenue	Dallas, TX	Central Dallas		75	
<b>Total Multifamily Portfolio (5 Properties)</b>				<b>930</b>	
<b>Hotel Portfolio:</b>					
<i>Hotels (2 properties)</i>					
Sheraton Grand Hotel	Sacramento, CA	Downtown/Midtown			503
Courtyard Oakland	Oakland, CA	City Center			162

**First Mortgage (1 Property)**

LAX Holiday Inn

First mortgage(2)	Los Angeles, CA	LAX	405
-------------------	-----------------	-----	-----

**Ancillary Properties (1 Property)**

Sheraton Grand Hotel Parking Garage & Retail	Sacramento, CA	Downtown/Midtown	9,453
--	----------------	------------------	-------

<b>Total Hotel Portfolio (4 Properties)</b>			<b>9,453</b>
---	--	--	--------------

<b>TOTAL PORTFOLIO (31 Properties)</b>			<b>5,383,633</b>	<b>930</b>	<b>1,070</b>
--	--	--	------------------	------------	--------------

- 1) 901 N Capitol Street is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. The land parcel is entitled to develop an additional 270,172 square foot building.
- 2) CIM Urban is the lender to LAX Holiday Inn and holds the first mortgage.

---

## **Table of Contents**

Currently, CIM Urban is externally managed by an affiliate of CIM Group. If the Merger is consummated, CIM Urban will continue to be managed by the Advisor pursuant to new or existing investment management agreements.

### **Overview and History of CIM Group**

Founded by Shaul Kuba, Richard Ressler and Avi Shemesh, all of whom continue to direct the strategy of CIM Group and its day-to-day management, CIM Group (affiliates of which will provide services as the Advisor under various investment management agreements and as the Manager under the Master Services Agreement) is an integrated, full-service investment manager with in-house research, acquisition, investment, development, finance, leasing and management capabilities. CIM Group, which as of June 30, 2013 had over 300 employees, has invested and committed to invest in 137 investments and currently manages investments totaling approximately \$13.1 billion of assets<sup>4</sup> as of June 30, 2013 for its principals, partners and investors, which include U.S. and international pension funds, endowments, multinational corporations and other institutional private investors.

CIM Group was established in 1994 as a partner for investors seeking urban real estate investments in communities qualified by CIM Group. During the past 19 years, CIM Group has implemented a consistent investment strategy and discipline in which it focuses on identifying and investing in urban properties in regions and specific submarkets in which market values have dropped below intrinsic values (i.e., long-term values to which CIM Group expects market values to recover) or in underserved/transitional urban districts that have dedicated resources to become vibrant urban communities. CIM Group's investment track record includes the formation of seven institutional funds across CIM Group's opportunistic and stabilized real estate investment platforms as well as its infrastructure investment platform. CIM Group has actively managed, leased, operated or otherwise controlled approximately 119 commercial real estate assets, aggregating more than 22.3 million square feet with the goal of generating superior returns for its investors relative to the risk undertaken through investment in such assets.

Initially, CIM Group's investments were made primarily with capital contributed by its principals. CIM Group has grown its business significantly by investing in commercial and multifamily real estate located in high-barrier-to-entry urban markets through a variety of institutional funds. CIM Group's primary real estate holdings include retail, lodging, office and multifamily assets located in traditional downtown areas and main streets within metropolitan areas of the United States. These neighborhoods typically possess above-average economic and socioeconomic characteristics, which historically have been resilient to various economic fluctuations. As an extension of CIM Group's urban investment strategy, CIM Group may also invest in the basic pillars of growing communities through public goods and services, which includes transportation, energy and utilities, natural resources, social services and facilities and communications. As of June 30, 2013, CIM Group has approximately \$13.1 billion in assets under management across its family of funds. Going forward, CIM Group is committed to growing its business by utilizing the same investment strategy to create value for its private and public investors.

### ***Community Qualification***

CIM Group's investment strategy is centered around a community qualification process. Since 1994, CIM Group has qualified 94 communities for investment and has made investments in approximately 44 of these communities. The community qualification process can take as little as six months to as much as five years and is a key consideration when making an investment decision. CIM Urban expects that its investments will primarily consist of investments located in qualified communities. However, future investments may be located in other

<sup>4</sup> *Approximately \$13.1 billion in assets includes assets purchased with joint venture partners and with borrowed funds, as of June 30, 2013.*

**Table of Contents**

areas (including areas outside of North America) that have been presented to CIM Group by a member of its relationship network.

CIM Group examines the characteristics of a market to determine whether the district justifies the extensive efforts CIM Group undertakes in reviewing and making potential investments in its qualified communities. Qualified communities generally fall into one of two categories: (1) transitional urban districts and (2) well-established, thriving urban areas (typically major CBDs).

The criteria for qualifying communities that are transitional urban districts are as follows:

Improving demographics

Broad public support for CIM Group's investment approach

Private investment

Underserved niches in the community's real estate infrastructure

Potential to invest a minimum of \$100 million of opportunistic equity within five years

The criteria for qualifying communities located in thriving urban areas are as follows:

Positive demographics

Public support for investment

Opportunities below intrinsic value

Potential to invest a minimum of \$100 million of opportunistic equity within five years

***Business Principles***

The qualification process is one of CIM Group's core competencies, which demonstrates a disciplined investing program and strategic outlook on urban communities. Once a community is qualified, CIM Group believes it continues to differentiate itself through the following business principles:

Permanent investor in its qualified communities

Product non-specific

Community-based tenancing

Local market leadership with North American footprint

Investment diversification

**Overview and History of CIM REIT**

CIM REIT was formed by CIM Group in 2005 to invest, through its wholly-owned operating partnership CIM Urban, primarily in substantially stabilized real estate and real estate-related assets in urban markets throughout North America. Deploying the investment discipline and processes it has developed as an investor in high density, high barrier to entry urban markets over the last 19 years, CIM Group has implemented a consistent investment strategy and discipline across its family of funds, in which it focuses on identifying and investing in urban properties in qualified communities. This strategy and discipline has resulted in a portfolio of assets held by CIM Urban that CIM Group believes will outperform acquisitions of similar asset type and vintage. CIM REIT has completed the investment of the approximately \$1.8 billion of equity it raised from institutional investors.

---

## **Table of Contents**

### **CIM Urban Business Objectives and Growth Strategies**

CIM Urban's objective is to achieve superior long-term returns relative to the risk that CIM Urban is undertaking. CIM Urban intends to achieve this objective by continuing to deploy the investment processes that CIM Group has developed during 19 years as an investor in urban markets and identifying opportunities to invest at prices below intrinsic values.

CIM Urban intends to drive portfolio growth through a combination of acquisition and asset management strategies, which are designed to increase cash flows and asset value.

CIM Urban's investment strategy is centered around a community qualification process. CIM Urban believes this strategy provides it with a significant competitive advantage when making urban real estate investments. The communities qualified by CIM Group are targeted urban districts that have a variety of resources and amenities that are instrumental to the communities' vibrancy. These communities attract people who are looking for homes, jobs, stores, restaurants and other entertainment venues within proximity to public transportation. CIM Urban believes that improving demographics, combined with public commitment and future investments in these urban neighborhoods, will provide greater returns within these qualified communities compared to similar properties in other markets. Since 1994, CIM Group has qualified 94 communities and has deployed cash in approximately 44 of these qualified communities. The qualification process is a critical component of CIM Group's investment evaluation. Although CIM Urban may not invest exclusively in qualified communities, it is expected that most of CIM Urban's investments will be identified through this systematic process.

Through an active management program provided by CIM Group, CIM Urban's objective is to enhance the value of its investments and increase cash flow. CIM Group has extensive in-house research, acquisition, investment, development, financing, leasing and other asset management capabilities. CIM Urban believes that its adherence to these core competencies through CIM Group creates significant efficiencies of scale for CIM Urban, and has positioned CIM Urban to increase operating income and asset values. As a fully integrated owner and operator, CIM Group's asset management capabilities are complemented by its in-house property management capabilities, which include monthly and annual budgeting and reporting as well as vendor services management, property maintenance and capital expenditures management. CIM Group's property managers seek to ensure that revenue objectives are met, lease terms are followed, receivables are collected, preventative maintenance programs are implemented, vendors are evaluated and expenses are controlled. CIM Group reviews and approves strategic plans for each investment, including financial, leasing, marketing, property positioning, strategic and disposition plans. In addition, CIM Group reviews and approves the annual business plan for the portfolio on a property-by-property basis, including its capital and operating budget.

For more information about post-merger business strategy, see "STRATEGY OF PMC COMMERCIAL AFTER THE MERGER" Business Strategy beginning on page 181.

### **Competitive Advantages**

CIM Urban believes that it has several competitive advantages to effectively carry out the foregoing business objectives and growth strategies:

**Strong Manager.** CIM Urban will continue to be managed by CIM Group, which since 1994 has managed seven institutional funds, including CIM Urban. These funds have approximately 49 institutional investors. CIM Group has invested and committed to invest in 137 investments in approximately 44 qualified communities. The competitive advantages provided to CIM Urban by CIM Group include:

**Experienced Management Team.** CIM Group's senior management team is composed of 10 principals who have an average of 24 years of real estate and investment experience. CIM Group's three founders—Richard Ressler, Avi Shemesh and Shaul Kuba—have worked together for the

## **Table of Contents**

last 20 years, and the broader senior management team has largely worked together for more than 10 years.

**Integrated, Multidisciplinary Organization.** As of June 30, 2013, CIM Group had over 300 employees located primarily in four U.S. offices. The company has extensive in-house expertise in all aspects of real estate, including market research, urban planning, community relations, architecture, legal affairs, finance, development, leasing, property management and tax. As a result, CIM Group provides hands-on operating expertise throughout the investment process.

**Extensive Investment and Operating Experience.** As of June 30, 2013, CIM Group manages approximately \$13.1 billion of assets under the supervision of its management team. CIM Group has invested in and operated a wide array of asset types, including multifamily, retail, office, hotel, infrastructure, parking, signage and mixed-use properties, as well as loans, and has undertaken investments in both substantially stabilized assets as well as opportunistic assets requiring development, redevelopment, distressed turnaround and/or recapitalization strategies.

**Disciplined Investment Process.** CIM Group follows a clearly defined and disciplined investment process that it believes enables it to identify and select attractive investments and to quantify and mitigate risk factors. This process carries an investment through its entire lifecycle, spanning all stages including sourcing, research, underwriting, financing, acquisition, asset management and disposition.

**Sourcing of Investment Opportunities.** CIM Urban will have access to CIM Group's extensive network of relationships with owners, lenders, special servicers, financial intermediaries and other industry participants from which it is able to cultivate investment opportunities that are either off-market or not broadly marketed. CIM Group also works with local government agencies to understand the goals and commitments of each municipality in an effort to improve the various neighborhoods in which CIM Group owns and operates real estate assets. CIM Group utilizes its in-depth knowledge of its qualified communities and its broad network of relationships to target investments at what CIM Group believes to be a discount to their intrinsic (i.e., expected long-term) values. These opportunities may include investments that are publicly listed for sale as well as those that may become available off-market, via privately negotiated transactions.

**High Quality Assets.** CIM Urban's investments are typically high quality properties that CIM Group believes are well-positioned to outperform their peers. The investments CIM Urban makes in qualified communities are generally subject to positive external factors that CIM Urban believes will enhance their value, including higher rent growth rates than regional and national averages for similar assets.

**Opportunity for Strategic Growth.** CIM Urban expects to have a variety of capital resources due to the low leverage of its portfolio and its internal cash generation. CIM Urban believes these expected capital resources will enable CIM Urban to pursue a prudent growth strategy and allow for future accretive acquisitions.

## **Investment Strategy**

CIM Urban's investment strategy is to continue to invest in substantially stabilized real estate and real estate-related assets located in qualified communities in a manner that will allow CIM Urban to increase the value of its assets and to grow its revenue and cash flow in order to enhance the dividends paid to investors. By employing a similar investment strategy to that which CIM Urban has consistently utilized to target stabilized real estate assets, CIM Urban's objective is to leverage its extensive knowledge of the targeted asset types and communities to identify investment opportunities at prices below intrinsic values and achieve superior returns relative to the risk which CIM Urban is undertaking.

CIM Urban plans to continue investing in a diverse range of stabilized urban properties and loans secured by such properties, including office, retail, hotel, multifamily apartments, signage and parking, which meet CIM Urban's investment strategy and criteria and are located principally in qualified communities.





---

**Table of Contents**

**Policies with Respect to Certain Activities**

CIM Urban may from time to time require additional funding in order to acquire new investments, elect to replace existing funding sources with new ones to reduce CIM Urban's cost of capital, or refinance upcoming maturities of existing obligations. CIM Urban initially expects to obtain capital through (i) the addition of senior, non-recourse debt using target acquisitions as well as existing investments as collateral, and (ii) the use and potential expansion of its existing unsecured revolving credit line or the use of a new credit line. In the future, CIM Urban may utilize other sources of financing to the extent available to it, including through new offerings of common shares, preferred shares, senior securities, and other equity and debt securities, formation of an open-ended REIT and the sale of existing investments. CIM Urban expects to maintain leverage levels that are comparable to those of other commercial property REITs engaged in business strategies similar to its own.

Without the approval of its advisory committee, which consists of representatives of certain non-affiliated class A members of CIM REIT, CIM Urban may not invest more than (i) the lesser of (x) 25% of the aggregate capital commitments of its partners and (y) \$500 million of capital contributions in any one asset or company; provided, however, that the foregoing limitation will not apply to an investment consisting of a portfolio of, or a company or other entity owning, multiple assets (i.e., the foregoing limitation will apply to each individual asset in any such portfolio or entity); (ii) 25% of the aggregate capital commitments of its partners in any MSA with a population of 1,000,000 or less or in any recognized real estate submarket of an MSA with a population of more than 1,000,000; and (iii) 50% of the aggregate capital commitments of its partners in any MSA with a population of more than 1,000,000.

CIM Urban may offer debt or equity securities in exchange for property.

CIM Urban has previously acquired one senior non-recourse mortgage secured by real estate collateral, and may from time to time continue to acquire loans and/or originate new loans to third parties, including, without limitation, to joint ventures in which CIM Urban participates, if the Advisor believes that such activities would be in accordance with the business strategies of CIM Urban and PMC Commercial. Without the approval of its advisory committee, CIM Urban may not acquire or originate any senior debt (i.e., first mortgage loans) if the acquisition or origination by CIM Urban of such senior debt would cause the aggregate adjusted fair value of all CIM Urban investments that are senior debt to equal or exceed 25% of the aggregate adjusted fair value of all CIM Urban investments (including, without duplication, any property level reserves with respect to such investments).

CIM Urban has not invested in the debt or equity securities of other public or private REITs for the purpose of exercising control over such entities, and does not intend to do so as of the date of this proxy statement/prospectus. Without the approval of its advisory committee, CIM Urban may not invest in the securities of a publicly-traded company, except as part of a transaction or series of transactions designed for the purpose of acquiring control of the company and/or its underlying assets.

CIM Urban has not engaged in trading, underwriting or agency distribution or sale of securities, and does not intend to do so as of the date of this proxy statement/prospectus.

CIM Urban has not repurchased shares of its capital share or other securities, and does not intend to do so as a wholly-owned subsidiary of PMC Commercial.

CIM Urban has historically provided an annual report to CIM REIT's Class A members containing financial statements certified by an independent accounting firm, and expects to continue to provide an annual audited financial report to such Class A members.

CIM Urban acquires assets for both income and capital appreciation.

Except as otherwise described above, the general partner of CIM Urban may change any of these policies without prior notice to, or a vote of, its limited partners.

---

## **Table of Contents**

### **Markets Overview**

*Market and industry data and other statistical information used throughout this section are based on independent industry publications, including Reis as it relates to office and multifamily investments and STR Global as it relates to hotel investments, sources which CIM Group believes to be reliable.*

*Reis, Inc. ( Reis ), through its subsidiary, Reis Services, provides commercial real estate market information and analytical tools in the United States. The company maintains a proprietary database containing information on commercial properties, including apartment, office, retail, warehouse/distribution, and flex/research and development properties in major metropolitan markets and neighborhoods.*

*Smith Travel Research, Inc. ( STR Global ) tracks supply and demand data for the hotel industry and provides market share analysis for all major hotel chains and brands across North America and the Caribbean.*

### **Oakland**

#### *Oakland Office<sup>5</sup>*

CIM Urban has five properties representing 1,728,430 square feet (approximately 32.3% of CIM Urban's office portfolio) located in the CBD market of Oakland. The market experienced negative net absorption of 16,000 square feet during the second quarter of 2013. The vacancy rate within the market increased by 20 basis points to 11.8% as of June 30, 2013 from 11.6% as of March 31, 2013. During the second quarter of 2013, average asking rents decreased by 0.1% to \$29.00 per square foot per annum as of June 30, 2013 from \$29.02 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 35 basis points and asking rents increased by 1.3% in the first six months of 2013. CIM Urban also owns a parking garage that is adjacent to two of CIM Urban's Oakland office properties.

#### *Oakland Hotel<sup>5</sup>*

CIM Urban has one hotel representing 162 keys (approximately 15.1% of CIM Urban's hotel portfolio, including CIM Urban's investment in the first mortgage for the Holiday Inn LAX in Los Angeles) located in the CBD market of Oakland. Similar hotels in the same market experienced higher occupancy and a higher average daily rate (ADR) for the trailing twelve month period ending June 30, 2013, on a year-over-year basis. For the competitive set, occupancy increased by 305 bps to 77.7% as of June 30, 2013 from 74.6% as of June 30, 2012, and ADR increased by 8.5% to \$142.11 as of June 30, 2013 from \$130.95 as of June 30, 2012.

### **Sacramento**

#### *Sacramento Office*

CIM Urban has one property representing 453,547 square feet (approximately 8.5% of CIM Urban's office portfolio) located in the Downtown/Midtown submarket of Sacramento. The submarket experienced flat net absorption during the second quarter of 2013. The vacancy rate within the submarket remained constant at 15.6% as of June 30, 2013 on a quarter-over-quarter basis. During the second quarter of 2013, average asking rents increased by 0.3% to \$29.12 per square foot per annum as of June 30, 2013 from \$29.04 as of March 31, 2013. On a year-over-year basis, vacancy increased by 115 basis points and asking rents increased by 0.3% in the first six months of 2013. CIM Urban also owns a parking garage with 12,275 square feet of retail space that neighbors CIM Urban's Sacramento office property.

<sup>5</sup> *Reis does not break out this market separately for the City Center and Lake Merritt submarkets.*

**Table of Contents***Sacramento Hotel*

CIM Urban has one hotel representing 503 keys (approximately 47.0% of CIM Urban's hotel portfolio, including CIM Urban's investment in the first mortgage for the LAX Holiday Inn in Los Angeles) located in the Downtown/Midtown submarket of Sacramento. CIM Urban's hotel's competitive set in the submarket experienced higher occupancy and higher ADR for the trailing twelve month period ending June 30, 2013, on a year-over-year basis. For the competitive set, occupancy increased by 167 bps to 67.8% as of June 30, 2013 from 66.1% as of June 30, 2012, and ADR increased by 1.2% to \$124.61 as of June 30, 2013 from \$123.19 as of June 30, 2012. CIM Urban also owns a parking garage with 8,928 square feet of retail space that is across the street from CIM Urban's Sacramento hotel.

*Los Angeles**Los Angeles Office*

CIM Urban has two properties representing 246,618 square feet (approximately 4.6% of CIM Urban's office portfolio) located in the West LA submarket of Los Angeles. The submarket experienced flat net absorption during the second quarter of 2013. The vacancy rate within the submarket remained constant at 15.2% as of June 30, 2013 on a quarter-over-quarter basis. During the second quarter of 2013, average asking rents increased by 0.1% to \$40.10 per square foot per annum as of June 30, 2013 from \$40.05 as of March 31, 2013. On a year-over-year basis, vacancy increased by 195 basis points and asking rents increased by 0.3% in the first six months of 2013.

CIM Urban has one property representing 82,180 square feet (approximately 1.5% of CIM Urban's office portfolio) located in the Hollywood/Sunset submarket of Los Angeles. The submarket experienced negative net absorption of 28,000 square feet during the second quarter of 2013. The vacancy rate within the submarket increased by 70 basis points to 19.6% as of June 30, 2013 from 18.9% as of March 31, 2013. During the second quarter of 2013, average asking rents increased by 0.7% to \$38.05 per square foot per annum as of June 30, 2013 from \$37.80 as of March 31, 2013. On a year-over-year basis, vacancy increased by 235 basis points and asking rents increased by 1.3% in the first six months of 2013.

*Los Angeles Hotel*

The hotel for which CIM Urban is the lender on its first mortgage represents 405 keys (approximately 37.9% of CIM Urban's hotel portfolio) and is located in the LAX submarket of Los Angeles. The hotel's competitive set in the submarket experienced higher occupancy and higher ADR for the trailing twelve months ending June 30, 2013, on a year-over-year basis. Occupancy increased by 391 bps to 88.3% as of June 30, 2013 from 84.4% as of June 30, 2012. ADR increased by 6.8% to \$92.01 as of June 30, 2013 from \$86.16 as of June 30, 2012.

The borrower under the first mortgage is currently in default, and CIM Urban has initiated foreclosure proceedings, which may lead to CIM Urban taking possession of the LAX Holiday Inn.

*District of Columbia**District of Columbia Office*

CIM Urban has four properties representing 1,189,828 square feet (approximately 22.2% of CIM Urban's office portfolio) located in the Capitol Hill submarket of the District of Columbia. The submarket experienced flat net absorption during the second quarter of 2013. The vacancy rate within the submarket remained constant at 12.0% as of June 30, 2013 on a quarter-over-quarter basis. During the second quarter of 2013, average asking rents increased by 0.1% to \$51.05 per square foot per annum as of June 30, 2013 from \$50.99 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 5 basis points and asking rents increased by 2.1% in the first six months of 2013.

---

**Table of Contents**

CIM Urban has one property representing 407,321 square feet (approximately 7.6% of CIM Urban's office portfolio) located in the Southwest submarket of the District of Columbia. The submarket experienced positive net absorption of 45,000 square feet during the second quarter of 2013. The vacancy rate within the submarket decreased by 40 basis points to 10.1% as of June 30, 2013 from 10.5% as of March 31, 2013. During the second quarter of 2013, average asking rents decreased by 0.1% to \$50.97 per square foot per annum as of June 30, 2013 from \$51.01 as of March 31, 2013. On a year-over-year basis, vacancy increased by 195 basis points and asking rents increased by 0.6% in the first six months of 2013. CIM Urban also owns an approximately 39,696 square foot development site located at 901 N. Capitol Street.

***San Francisco******San Francisco Office***

CIM Urban has one property representing 66,943 square feet (approximately 1.2% of CIM Urban's office portfolio) located in the South of Market submarket of San Francisco. The submarket experienced negative net absorption of 5,000 square feet during the second quarter of 2013. The vacancy rate within the submarket increased by 10 basis points to 15.2% as of June 30, 2013 from 15.1% as of March 31, 2013. During the second quarter of 2013, average asking rents increased by 1.3% to \$38.44 per square foot per annum as of June 30, 2013 from \$37.95 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 560 basis points and asking rents increased by 5.4% in the first six months of 2013.

CIM Urban has one property representing 415,120 square feet (approximately 7.7% of CIM Urban's office portfolio) located in the South Financial District submarket of San Francisco. The submarket experienced negative net absorption of 42,000 square feet during the second quarter of 2013. The vacancy rate within the submarket increased by 30 basis points to 10.2% as of June 30, 2013 from 9.9% as of March 31, 2013. During the second quarter of 2013, average asking rents increased by 1.2% to \$41.68 per square foot per annum as of June 30, 2013 from \$41.19 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 25 basis points and asking rents increased by 3.8% in the first six months of 2013.

***Charlotte******Charlotte Office***

CIM Urban has one property representing 553,056 square feet (approximately 10.3% of CIM Urban's office portfolio) located in the Uptown submarket of Charlotte. The submarket experienced negative net absorption of 154,000 square feet during the second quarter of 2013. The vacancy rate within the submarket increased by 110 basis points to 14.2% as of June 30, 2013 from 13.1% as of March 31, 2013. During the second quarter of 2013, average asking rents increased by 0.7% to \$26.05 per square foot per annum as of June 30, 2013 from \$25.87 as of March 31, 2013. On a year-over-year basis, vacancy increased by 180 basis points and asking rents increased by 2.4% in the first six months of 2013.

***Orange County******Orange County Office***

CIM Urban has one property representing 37,116 square feet (approximately 0.7% of CIM Urban's office portfolio) located in the Central Orange County submarket. The submarket experienced negative net absorption of 64,000 square feet during the second quarter of 2013. The vacancy rate within the submarket increased by 40 basis points to 16.0% as of June 30, 2013 from 15.6% as of March 31, 2013. During the second quarter of 2013, average asking rents remained constant at \$23.44 per square foot per annum as of June 30, 2013 on a quarter-over-quarter basis. On a year-over-year basis, vacancy decreased by 305 basis points and asking rents increased by 1.8% in the first six months of 2013.

**Table of Contents*****Austin******Austin Office***

CIM Urban has one property representing 181,746 square feet (approximately 3.4% of CIM Urban's office portfolio) located in the South submarket of Austin. The submarket experienced positive net absorption of 9,000 square feet during the second quarter of 2013. The vacancy rate within the submarket decreased by 40 basis points to 15.6% as of June 30, 2013 from 16.0% as of March 31, 2013. During the second quarter of 2013, average asking rents increased by 0.6% to \$26.32 per square foot per annum as of June 30, 2013 from \$26.17 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 80 basis points and asking rents increased by 2.8% in the first six months of 2013.

***Dallas******Dallas Multifamily***

CIM Urban has one property representing 334 units (approximately 35.9% of CIM Urban's multifamily portfolio) located in the Oaklawn submarket of Dallas. The submarket experienced positive net absorption of 7 units during the second quarter of 2013. The vacancy rate within the submarket decreased by 30 basis points to 3.5% as of June 30, 2013 from 3.8% as of March 31, 2013. During the second quarter of 2013, average asking rents increased by 0.3% to \$1,270 per month as of June 30, 2013 from \$1,266 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 115 basis points and asking rents decreased by 1.9% in the first six months of 2013.

CIM Urban has two properties representing 178 units (approximately 19.2% of CIM Urban's multifamily portfolio) located in the Central Dallas submarket of Dallas. The submarket experienced positive net absorption of 231 units during the second quarter of 2013. The vacancy rate within the submarket increased by 60 basis points to 6.4% as of June 30, 2013 from 5.8% as of March 31, 2013, due to new units coming online. During the second quarter of 2013, average asking rents increased by 1.1% to \$1,860 per month as of June 30, 2013 from \$1,839 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 20 basis points and asking rents increased by 3.2% in the first six months of 2013.

***Houston******Houston Multifamily***

CIM Urban has one property representing 308 units (approximately 33.1% of CIM Urban's multifamily portfolio) located in the Montrose/River Oaks submarket of Houston. The submarket experienced positive net absorption of 307 units during the second quarter of 2013. The vacancy rate within the submarket increased by 50 basis points to 5.6% as of June 30, 2013 from 5.1% as of March 31, 2013, due to new units coming online. During the second quarter of 2013, average asking rents increased by 1.0% to \$1,370 per month as of June 30, 2013 from \$1,357 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 95 basis points and asking rents increased by 5.7% in the first six months of 2013.

***New York******New York Multifamily***

CIM Urban has one property representing 110 units (approximately 11.8% of CIM Urban's multifamily portfolio) located in the Midtown West submarket of New York. The submarket experienced positive net absorption of 411 units during the second quarter of 2013. The vacancy rate within the submarket increased by 50 basis points to 3.1% as of June 30, 2013 from 2.6% as of March 31, 2013, due to new units coming online. During the second quarter of 2013, average asking rents increased by 1.8% to \$3,901 per month as of June 30, 2013 from \$3,831 as of March 31, 2013. On a year-over-year basis, vacancy decreased by 20 basis points and asking rents increased by 1.8% in the first six months of 2013.

**Table of Contents****Other Markets**

CIM Urban may at times make new real estate acquisitions in other markets in which CIM Urban does not have investments at present. New investments are primarily targeted in urban markets that have been, or will be, researched and approved by CIM Group and meet the qualification criteria to become qualified communities.

**Properties**

As of June 30, 2013 CIM Urban's investments consisted of (i) 19 office properties comprising approximately 5.4 million rentable square feet, (ii) five multifamily properties comprising 930 units, (iii) two hotels comprising 665 rooms, (iv) one first mortgage (under which the borrower is currently in default, and, as a result, CIM Urban has initiated foreclosure proceedings, which may lead to CIM Urban taking possession of the LAX Holiday Inn), (v) three parking garages, two of which have street level retail space, and (vi) one development site. Each of CIM Urban's properties is suitable and adequate for its intended use. The following tables contain descriptive information about all of CIM Urban's properties as of June 30, 2013.

**Office Portfolio Key Operating Statistics By Property as of June 30, 2013**

Property	Market	Rentable Square Feet	% Leased(1)	Annualized Rent(2)	Annualized Rent Per Leased Square Foot
BB&T Center	Charlotte, NC	553,056	82.6%	\$ 9,966,236	\$ 21.82
1 Kaiser Plaza	Oakland, CA	532,969	89.9%	18,077,218	37.73
2101 Webster Street	Oakland, CA	472,871	90.2%	16,196,311	37.97
980 9th Street	Sacramento, CA	453,547	85.1%	12,217,706	31.65
211 Main Street	San Francisco, CA	415,120	100.0%	12,027,529	28.97
370 L'Enfant Promenade	District of Columbia	407,321	91.3%	19,050,660	51.22
999 N Capitol Street(3)	District of Columbia	321,980	82.8%	11,242,401	42.17
899 N Capitol Street(3)	District of Columbia	314,317	62.9%	9,501,964	48.06
800 N Capitol Street	District of Columbia	306,194	97.1%	12,406,529	41.75
1901 Harrison Street	Oakland, CA	272,952	87.0%	7,873,911	33.15
830 1st Street	District of Columbia	247,337	100.0%	9,865,951	39.89
1333 Broadway	Oakland, CA	239,801	82.5%	5,975,908	30.21
2100 Franklin Street	Oakland, CA	209,837	72.8%	4,809,152	31.48
11620 Wilshire Boulevard	Los Angeles, CA	191,075	68.9%	4,557,210	34.62
Penn Field	Austin, TX	181,746	92.5%	4,095,201	24.36
7083 Hollywood Boulevard	Los Angeles, CA	82,180	96.3%	2,755,371	34.82
260 Townsend	San Francisco, CA	66,943	100.0%	2,166,251	32.36
11600 Wilshire Boulevard	Los Angeles, CA	55,543	83.9%	1,818,959	39.03
Civic Center	Orange County, CA	37,116	100.0%	727,328	19.60
<b>Total Office/Weighted Average (19 Properties)</b>		<b>5,361,905</b>	<b>86.9%</b>	<b>\$ 165,331,796</b>	<b>\$ 35.47</b>
901 N Capitol Street(3),(4)	District of Columbia	N/A	N/A	N/A	
2353 Webster Street(5),(6)	Oakland, CA	N/A	N/A	638,758	
1010 8th St Parking(6)	Sacramento, CA	12,275	0.0%	280,243	
<b>Ancillary Properties/Weighted Average (3 Properties)</b>		<b>12,275</b>	<b>0.0%</b>	<b>\$ 919,001</b>	
<b>Total Office Portfolio/Weighted Average (22 Properties)</b>		<b>5,374,180</b>	<b>86.7%</b>	<b>\$ 166,250,797</b>	

1) Based on leases signed as of June 30, 2013.

2) Represents gross monthly base rent under leases commenced as of June 30, 2013, multiplied by twelve. This amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013, were approximately \$11.8 million. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date.

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

- 3) *Ownership in property was 99.7% as of June 30, 2013.*
- 4) *901 N Capitol Street is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. The land parcel is entitled to develop an additional 270,172 square foot building.*
- 5) *Parking garage at the property.*
- 6) *The annualized rent for these properties represents gross monthly contractual rent under parking and retail leases commenced as of June 30, 2013, multiplied by twelve. For retail leases, this amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013 were immaterial. Where applicable for retail leases, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date.*

**Table of Contents****Office Portfolio Detail by Property and Submarket (Including Key Operating Statistics)**

Market / Submarket / Property	Percent Ownership	Year Built/ Renovated	Annualized Rent(1)	Rentable Square Feet	% Leased(2)
<b>Oakland, CA</b>					
<i>Lake Merritt</i>					
1 Kaiser Plaza	100.0%	1970/2008	\$ 18,077,218	532,969	89.9%
2101 Webster Street	100.0%	1984	16,196,311	472,871	90.2%
1901 Harrison Street	100.0%	1985	7,873,911	272,952	87.0%
2100 Franklin Street	100.0%	2008	4,809,152	209,837	72.8%
Subtotal/Weighted Average			46,956,592	1,488,629	87.1%
<i>City Center</i>					
1333 Broadway	100.0%	1972/1995	5,975,908	239,801	82.5%
<b>Total Market/Weighted Average</b>			<b>\$ 52,932,500</b>	<b>1,728,430</b>	<b>86.4%</b>
<b>District of Columbia</b>					
<i>Capitol Hill</i>					
999 N Capitol Street	99.7%	1969-1973/1999 & 2011	\$ 11,242,401	321,980	82.8%
899 N Capitol Street	99.7%	1969-1973/1999 & 2011	9,501,964	314,317	62.9%
800 N Capitol Street	100.0%	1991	12,406,529	306,194	97.1%
830 1st Street	100.0%	2002	9,865,951	247,337	100.0%
Subtotal/Weighted Average			43,016,845	1,189,828	84.8%
<i>Southwest</i>					
370 L. Enfant Promenade	100.0%	1987	19,050,660	407,321	91.3%
<b>Total Market/Weighted Average</b>			<b>\$ 62,067,505</b>	<b>1,597,149</b>	<b>86.5%</b>
<b>Charlotte, NC</b>					
<i>Uptown</i>					
BB&T Center	100.0%	1977/1997	\$ 9,966,236	553,056	82.6%
<b>San Francisco, CA</b>					
<i>South Financial District</i>					
211 Main Street	100.0%	1973/1998	\$ 12,027,529	415,120	100.0%
<i>South of Market</i>					
260 Townsend	100.0%	1986/2002	2,166,251	66,943	100.0%
<b>Total Market/Weighted Average</b>			<b>\$ 14,193,780</b>	<b>482,063</b>	<b>100.0%</b>
<b>Sacramento, CA</b>					
<i>Downtown/Midtown</i>					
980 9th Street	100.0%	1992	\$ 12,217,706	453,547	85.1%
<b>Los Angeles, CA</b>					
<i>West LA</i>					
11620 Wilshire Boulevard	100.0%	1976	\$ 4,557,210	191,075	68.9%
11600 Wilshire Boulevard	100.0%	1955	1,818,959	55,543	83.9%
Subtotal/Weighted Average			6,376,169	246,618	72.3%
<i>Hollywood/Sunset</i>					
7083 Hollywood Boulevard	100.0%	1981	2,755,371	82,180	96.3%
<b>Total Market/Weighted Average</b>			<b>\$ 9,131,540</b>	<b>328,798</b>	<b>78.3%</b>
<b>Austin, TX</b>					



Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

<b>South</b>							
Penn Field	100.0%	1918/2001	\$	4,095,201	181,746	92.5%	
<b>Orange County, CA</b>							
<b>Central</b>							
Civic Center	100.0%	1980/2004	\$	727,328	37,116	100.0%	
<b>Office Properties/Weighted Average Total</b>				\$	165,331,796	5,361,905	86.9%
<b>Ancillary Properties</b>							
<b>District of Columbia</b>							
<b>Capitol Hill</b>							
901 N Capitol Street(3)	99.7%	N/A		N/A	N/A	N/A	
<b>Oakland, CA</b>							
<b>Lake Merritt</b>							
2353 Webster Street Parking Garage	100.0%	1986	\$	638,758	N/A	N/A	
<b>Sacramento, CA</b>							
<b>Downtown/Midtown</b>							
1010 8 <sup>th</sup> St Parking Garage & Retail	100.0%	1962	\$	280,243	12,275	0.0%	
<b>Total Office/Weighted Average Portfolio</b>				\$	166,250,797	5,374,180	86.7%

**Table of Contents**

- 1) Represents gross monthly base rent under leases commenced as of June 30, 2013, multiplied by twelve. This amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013, were approximately \$11.8 million. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date. Annualized rent for certain office properties includes rent attributable to retail and parking.
- 2) Based on leases signed as of June 30, 2013.
- 3) The property in the District of Columbia in Ancillary Properties is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. CIM Urban has the right to develop an additional 270,172 square foot building on such parcel.

**Office Portfolio Key Operating Statistics By Submarket as of June 30, 2013**

Market	Submarket	Number of Properties	Rentable Square Feet	Percent Leased <sup>1</sup>	Annualized Rent <sup>2</sup>	Annual Rent Per Leased Square Foot
Oakland, CA	Lake Merritt	4	1,488,629	87.1%	\$ 46,956,592	\$ 36.22
District of Columbia	Capitol Hill	4	1,189,828	84.8%	43,016,845	42.68
Charlotte, NC	Uptown	1	553,056	82.6%	9,966,236	21.82
Sacramento, CA	Downtown/Midtown	1	453,547	85.1%	12,217,706	31.65
San Francisco, CA	South Fin. District	1	415,120	100.0%	12,027,529	28.97
District of Columbia	Southwest	1	407,321	91.3%	19,050,660	51.22
Los Angeles, CA	West LA	2	246,618	72.3%	6,376,169	35.76
Oakland, CA	City Center	1	239,801	82.5%	5,975,908	30.21
Austin, TX	South	1	181,746	92.5%	4,095,201	24.36
Los Angeles, CA	Hollywood/Sunset	1	82,180	96.3%	2,755,371	34.82
San Francisco, CA	South of Market	1	66,943	100.0%	2,166,251	32.36
Orange County, CA	Central	1	37,116	100.0%	727,328	19.60
<b>Total Office Properties/Weighted Average</b>		<b>19</b>	<b>5,361,905</b>	<b>86.9%</b>	<b>\$ 165,331,796</b>	<b>\$ 35.47</b>
<b>Ancillary Properties</b>						
Sacramento, CA(3)	Downtown/Midtown	1	12,275	0.0%	\$ 280,243	
District of Columbia(4)	Capitol Hill	1				
Oakland, CA(3)	Lake Merritt	1			638,758	
<b>Total Ancillary Office/Weighted Average</b>		<b>3</b>	<b>12,275</b>	<b>0.0%</b>	<b>\$ 919,001</b>	
<b>Total Office/Weighted Average Portfolio</b>		<b>22</b>	<b>5,374,180</b>	<b>86.7%</b>	<b>\$ 166,250,797</b>	

- 1) Based on leases signed as of June 30, 2013.
- 2) Represents gross monthly base rent under leases commenced as of June 30, 2013, multiplied by twelve. This amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013, were approximately \$11.8 million. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date. Annualized Rent for certain office properties includes rent attributable to retail and parking.
- 3) Represents gross monthly contractual rent under parking and retail (1010 8<sup>th</sup> Street Parking Garage & Retail and 2353 Webster Parking Garage) leases commenced as of June 30, 2013, multiplied by twelve. For retail leases, this amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013 were immaterial. Where applicable for retail leases, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date.
- 4) The property in the District of Columbia in Ancillary Properties is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. The land parcel is entitled to develop an additional 270,172 square foot building.

**Office Portfolio Minimum Ground Lease Payments as of June 30, 2013(1)**

July 1, 2013 through December 31, 2013	\$ 218,626
2014	437,252
2015	475,511
2016	502,840

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

2017	502,840
2018	502,840
Thereafter (2019 - 2089)	129,031,316
<b>Total</b>	<b>\$ 131,671,225</b>

1) Represents ground lease payments for 800 N Capitol. This is the only CIM Urban property with a ground lease.

**Table of Contents****Office Portfolio Top 10 Tenants by Annualized Rental Revenue as of June 30, 2013**

<b>Industry</b>	<b>Lease Expiration</b>	<b>Rentable Square Feet</b>	<b>Annualized Rental Revenue(1)</b>	<b>% of Total Annualized Rent</b>
Public Administration(2)	2013-2026	1,136,638	\$ 47,925,325	28.8%
Services	2015-2018	487,895	19,088,591	11.5%
Finance, Insurance & Real Estate	2018	414,511	12,003,782	7.2%
Public Administration	2013-2021	196,981	9,501,964	5.7%
Finance, Insurance & Real Estate	2017	147,520	4,831,158	2.9%
Finance, Insurance & Real Estate	2015	100,522	3,529,010	2.1%
Finance, Insurance & Real Estate	2018	141,068	3,032,866	1.8%
Finance, Insurance & Real Estate	2014	121,171	2,881,377	1.7%
Services	2013-2014	49,682	2,583,729	1.6%
Other Services	2014-2017	74,284	2,579,356	1.6%
<b>Total Annualized Rental Revenue for Top Ten Tenants</b>			<b>\$ 107,957,158</b>	<b>64.9%</b>
<b>Total Annualized Rental Revenue</b>			<b>\$ 166,250,797</b>	

- 1) Annualized Rental Revenue represents gross monthly base rent under leases commenced as of June 30, 2013, multiplied by twelve. This amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013, were approximately \$11.8 million. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date. Annualized Rent for certain office properties includes rent attributable to retail and parking.
- 2) Reflects leases signed by the General Services Administration (GSA) in eight CIM Urban properties for 20 different government tenants.

**Table of Contents****Office Portfolio Tenant Concentration Greater Than 10% (By Property) as of June 30, 2013**

Property /	Lease	Renewal	Total	% of	Annualized	% of
Tenant Industry(1)	Expiration(2)	Option	Leased	Rentable	Rent(3)	Annualized
			Square Feet	Square Feet		Rent
<b>830 1st Street</b>						
Public Administration	7/31/2026	No	247,337	100.0%	\$ 9,865,951	100.0%
<b>260 Townsend</b>						
Construction	3/31/2016	Yes(4)	66,943	100.0%	2,166,251	100.0%
<b>Civic Center</b>						
Services	8/21/2020	Yes(5)	37,116	100.0%	727,328	100.0%
<b>211 Main Street</b>						
Finance, Insurance & Real Estate	4/30/2018	Yes(6)	414,511	99.9%	12,003,782	99.8%
<b>47 E 34th Street</b>						
Services(7)	2/28/2014	No	77,855	95.3%	4,900,000	95.7%
<b>7083 Hollywood Blvd</b>						
Services	8/31/2024	Yes(9)	35,792	43.6%	1,145,949	41.6%
Other Services(8),(10)	2015 & 2018	Yes(11)	28,151	34.3%	1,050,682	38.1%
<b>Total</b>			<b>63,943</b>	<b>77.9%</b>	<b>2,196,631</b>	<b>79.7%</b>
<b>1901 Harrison St</b>						
Finance, Insurance & Real Estate	12/31/2017	Yes(12)	147,520	54.0%	4,831,158	61.4%
Services	12/31/2022	No	42,220	15.5%	1,449,601	18.4%
<b>Total</b>			<b>189,740</b>	<b>69.5%</b>	<b>6,280,759</b>	<b>79.8%</b>
<b>999 N Capitol Street</b>						
Public Administration	12/22/2021	Yes(13)	100,500	31.2%	4,327,600	38.5%
Public Administration	5/31/2023	Yes(14)	67,611	21.0%	2,893,938	25.7%
Public Administration	11/20/2016	Yes(15)	52,881	16.4%	2,133,316	19.0%
<b>Total</b>			<b>220,992</b>	<b>68.6%</b>	<b>9,354,854</b>	<b>83.2%</b>
<b>800 N Capitol St</b>						
Public Administration	10/31/2022	No	62,438	20.4%	3,033,862	24.5%
Public Administration	Holdover	No	59,776	19.5%	2,391,060	19.3%
Public Administration	2/26/2015	No	47,212	15.4%	1,664,403	13.4%
Public Administration	Holdover	No	39,063	12.8%	1,574,943	12.7%
<b>Total</b>			<b>208,489</b>	<b>68.1%</b>	<b>8,664,268</b>	<b>69.9%</b>
<b>2101 Webster St</b>						
Services	12/31/2015	Yes(16)	144,563	30.6%	5,336,829	33.0%
Public Administration	10/4/2026	No	76,737	16.2%	3,165,687	19.5%
Other Services(8)	9/30/2017	No	49,086	10.4%	1,717,584	10.6%
Business Services	11/30/2018	Yes(17)	47,468	10.0%	1,635,740	10.1%
<b>Total</b>			<b>317,854</b>	<b>67.2%</b>	<b>11,855,840</b>	<b>73.2%</b>
<b>1 Kaiser Plaza</b>						
Services	2/28/2018	Yes(18)	343,332	64.4%	13,751,762	76.1%
<b>899 N Capitol Street</b>						
Public Administration	2/28/2021	No	150,718	48.0%	7,599,273	80.0%
Public Administration	Holdover	No	46,263	14.7%	1,902,691	20.0%
<b>Total</b>			<b>196,981</b>	<b>62.7%</b>	<b>9,501,964</b>	<b>100.0%</b>

2100 Franklin St

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

Services	5/31/2020	Yes(19)	49,311	23.5%	1,775,196	36.9%
Public Administration	7/31/2021	No	30,416	14.5%	1,258,390	26.2%
Public Administration	10/17/2021	Yes(20)	25,261	12.0%	913,795	19.0%
Other Services(8)	9/30/2017	No	25,198	12.0%	861,772	17.9%

<b>Total</b>			<b>130,186</b>	<b>62.0%</b>	<b>4,809,153</b>	<b>100.0%</b>
--------------	--	--	----------------	--------------	------------------	---------------

**370 L Enfant Promenade**

Public Administration	12/31/2014	No	186,880	45.9%	9,179,684	48.2%
Services	7/31/2014	No	47,440	11.6%	2,530,136	13.3%

<b>Total</b>			<b>234,320</b>	<b>57.5%</b>	<b>11,709,820</b>	<b>61.5%</b>
--------------	--	--	----------------	--------------	-------------------	--------------

**BB&T Center**

Finance, Insurance & Real Estate	1/31/2018	Yes(21)	141,068	25.5%	3,032,866	30.4%
Finance, Insurance & Real Estate	2014	Yes(22)	121,171	21.9%	2,881,377	28.9%

<b>Total</b>			<b>262,239</b>	<b>47.4%</b>	<b>5,914,243</b>	<b>59.3%</b>
--------------	--	--	----------------	--------------	------------------	--------------

**980 9th Street**

Real Estate	6/30/2015	Yes(23)	100,522	22.2%	3,529,010	28.9%
Public Administration	12/31/2019	No	65,419	14.4%	1,749,009	14.3%

<b>Total</b>			<b>165,941</b>	<b>36.6%</b>	<b>5,278,019</b>	<b>43.2%</b>
--------------	--	--	----------------	--------------	------------------	--------------

**Table of Contents****Office Portfolio Tenant Concentration Greater Than 10% (By Property) as of June 30, 2013**

Property /	Lease	Renewal	Total	% of	Annualized	% of
Tenant Industry(1)	Expiration(2)	Option	Leased	Rentable	Rent(3)	Annualized
1333 Broadway			Square Feet	Square Feet		Rent
Construction	5/31/2014	Yes(24)	78,384	32.7%	2,142,786	35.9%
<b>Penn Field</b>						
Other Services(8)	8/31/2022	Yes(25)	28,700	15.8%	762,154	18.6%
Services	9/15/2020	Yes(26)	26,170	14.4%	705,558	17.2%
<b>Total</b>			<b>54,870</b>	<b>30.2%</b>	<b>1,467,712</b>	<b>35.8%</b>

- 1) Tenant Industry classification as defined by the NAICS Association.
- 2) Expiration dates assume no exercise of renewal, extension, or termination options.
- 3) Represents gross monthly base rent under leases commenced as of June 30, 2013, multiplied by twelve. This amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013 were approximately \$11.8 million. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date. Annualized Rent for certain office properties includes rent attributable to retail and parking. Reimbursement were excluded for tenants in holdover.
- 4) Tenant has an option to extend its term for one 5-year period at prevailing market rent.
- 5) Tenant has an option to extend its term for two 5-year periods at prevailing market rent.
- 6) Tenant has an option to extend its term for two 7-year periods with base rent for such extension periods being the greater of the base rent payable for the last month of the term of the lease immediately preceding the commencement of the extension period or 100% of prevailing market rent.
- 7) A corporate housing operator leases 100% of the apartment units at 47 E 34th St, representing 95.3% of the property's rentable square feet. The remaining space at the property is retail.
- 8) Other Services includes transportation, communication, electric, gas and sanitary services.
- 9) Tenant has an option to extend its term for one 5-year period with 3% annual rent increases during the option term.
- 10) Tenant occupies building under multiple leases. Expiring April 30, 2015 and January 31, 2018.
- 11) Tenant has an option to extend its term for one 5-year period at prevailing market rent.
- 12) Tenant has an option to extend its term for two 10-year periods at 95% of prevailing market rent. The tenant exercised one of their extension options in 2006 prior to the expiration of the original term of the lease on December 31, 2007.
- 13) Tenant has an option to extend its term for one 10-year period, with base rent set at an agreed upon negotiated rent in the existing lease.
- 14) Tenant has an option to extend its term for two 5-year periods or one 10-year period at prevailing market rents.
- 15) Tenant has an option to extend its term for one 5-year period, with base rent set at an agreed upon negotiated rent in the existing lease.
- 16) Tenant has an option to extend the term of 95,597 square feet of its space for one 5-year period at prevailing market rent and has options to extend 48,960 square feet of its space for two 5-year periods at prevailing market rent.
- 17) Tenant has an option to extend its term for one 5-year period at prevailing market rent.
- 18) Tenant has an option to extend its term for two 5-year periods with base rent for the extension period being the greater of 95% of the prevailing market rent or the base rent payable for the year immediately preceding the commencement of the extended term.
- 19) Tenant has an option to extend its term for two 5-year periods at prevailing market rent.
- 20) Tenant has an option to extend its term for one 5-year period with base rent for such extension period being the greater of 100% of the prevailing market rent or the amount of monthly base rent payable for the month immediately preceding the commencement of the extended term.
- 21) Tenant has an option to extend its term for two 5-year periods with base rent for such extension period being the lesser of a continuation of the percent increases set forth in the original lease or prevailing market rent.
- 22) Tenant had an option to extend its term for two 5-year periods. The tenant also had an option to early terminate its term 2-years prior to the set expiration of their lease and the tenant has exercised their early termination option. As of June 30, 2013, CIM Urban has received \$710,000 in lease termination fees in connection with the tenant's exercise of their termination option and an additional termination payment of \$1.3 million is due.
- 23) Tenant has an option to extend its term for two 5-year periods at prevailing market rents.
- 24) Tenant has an option to extend its term for two 5-year periods at 95% of prevailing market rent.
- 25) Tenant has an option to extend its term for one 5-year period at 95% of prevailing market rent.
- 26) Tenant has an option to extend its term for two 5-year periods at prevailing market rent.

**Table of Contents****Office Portfolio Lease Distribution by Square Footage as of June 30, 2013**

Square Feet Under Lease	Number of Leases	Leases as a % of Total	Rentable Square Feet	Square Feet as a % of Total	Annualized Rent <sup>1</sup>	Annualized Rent as a % of Total
2,500 or Less	192	51.4%	179,347	3.4%	\$ 5,284,241	3.2%
2,501 10,000	96	25.7%	452,231	8.4%	14,414,895	8.7%
10,001 20,000	33	8.8%	489,302	9.1%	17,170,297	10.4%
20,001 40,000	16	4.3%	469,751	8.8%	15,981,131	9.7%
40,001 100,000	17	4.5%	944,289	17.6%	36,086,390	21.8%
Greater than 100,000	11	2.9%	2,090,768	39.0%	76,394,842	46.2%
<b>Subtotal</b>	<b>365</b>	<b>97.6%</b>	<b>4,625,688</b>	<b>86.3%</b>	<b>165,331,796</b>	<b>100.0%</b>
Available		0.0%	694,662	12.9%		0.0%
Signed Leases Not Commenced	9	2.4%	41,555	0.8%		0.0%
<b>Total/Weighted Average</b>	<b>374</b>	<b>100.0%</b>	<b>5,361,905</b>	<b>100.0%</b>	<b>\$ 165,331,796</b>	<b>100.0%</b>

1) Annualized Rent represents gross monthly base rent under leases commenced as of June 30, 2013, multiplied by twelve. This amount reflects total cash rent before abatements of \$11.8 million. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date. Annualized Rent for certain office properties includes rent attributable to retail and parking.

**Office Portfolio Lease Expiration as of June 30, 2013**

Year of Lease Expiration	Number of Leases	Rentable Square Feet	Square Feet as a % of Total	Annualized Rent <sup>1</sup>	Annual Rent as a % of Total	Annual Rent Per Occupied Square Foot
Available for Lease		694,662	13.0%	\$	0.0%	\$
2013	125	403,199	7.5%	14,781,400	9.0%	36.66
2014	50	640,035	11.9%	24,362,074	14.8%	38.06
2015	31	440,723	8.2%	16,103,247	9.7%	36.54
2016	35	261,232	4.9%	8,610,574	5.2%	32.96
2017	41	489,865	9.1%	16,371,555	9.9%	33.42
2018	35	1,113,200	20.7%	36,094,222	21.8%	32.42
2019	14	143,293	2.7%	4,320,578	2.6%	30.15
2020	7	122,721	2.3%	3,549,365	2.1%	28.92
2021	14	428,233	8.0%	18,056,880	10.9%	42.17
Thereafter	13	583,187	10.9%	23,081,901	14.0%	39.58
<b>Subtotal</b>	<b>365</b>	<b>5,320,350</b>	<b>99.2%</b>	<b>165,331,796</b>	<b>100.0%</b>	<b>35.74</b>
Signed Leases Not Commenced	9	41,555	0.8%		0.0%	
<b>Total/Weighted Average</b>	<b>374</b>	<b>5,361,905</b>	<b>100.0%</b>	<b>\$ 165,331,796</b>	<b>100.0%</b>	<b>\$ 35.74</b>

1) Annualized Rent represents gross monthly base rent under leases commenced as of June 30, 2013, multiplied by twelve. This amount reflects total cash rent before abatements of \$11.8 million. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date. Annualized Rent for certain office properties includes rent attributable to retail and parking.





**Table of Contents****Office Portfolio New Leases**

	For the Years Ended December 31,			Six Months Ended June 30,	Weighted Average January 1, 2010 to June 30, 2013
	2010(1)	2011	2012	2013	
<b>Number of Leases</b>	<b>70</b>	<b>82</b>	<b>66</b>	<b>38</b>	<b>67</b>
<b>Square Feet</b>	<b>696,664</b>	<b>1,548,257</b>	<b>581,495</b>	<b>227,458</b>	<b>672,097</b>
<b>Tenant Improvement Costs</b>					
Per Square Foot(2)	\$ 6.99	\$ 33.92	\$ 15.06	\$ 34.61	\$ 26.13
<b>Leasing Commission Costs</b>					
Per Square Foot(2)	7.87	13.24	8.89	15.66	12.15
<b>Total Tenant Improvement and Commission Costs</b>					
Per Square Foot(2)	\$ 14.86	\$ 47.16	\$ 23.95	\$ 50.27	\$ 38.28

- 1) Includes partial years for 11600 Wilshire Boulevard (from May 2010) and 11620 Wilshire Boulevard (from June 2010), which were acquired in 2010.
- 2) Assumes all tenant improvements and lease commissions were paid in the calendar year in which the lease commenced, which may be different than the year in which they were actually paid.

**Office Portfolio Historical Occupancy**

Property	Rentable Square Feet	Occupancy Rates(1)				
		2008	2009	2010	2011	2012
BB&T Center	553,056	100.0%	88.2%	94.0%	90.0%	94.6%
1 Kaiser Plaza	532,969	94.6%	91.6%	90.5%	93.2%	89.0%
2101 Webster Street	472,871	87.3%	94.5%	79.0%	87.9%	92.9%
980 9th Street(2)	453,547			87.7%	89.1%	84.3%
211 Main Street(2)	415,120			100.0%	100.0%	100.0%
370 L. Enfant Promenade	407,321	93.4%	100.0%	98.7%	82.5%	91.1%
999 N Capitol(3)	321,980	100.0%	100.0%	0.0%	47.6%	52.6%
899 N Capitol(3)	314,317	100.0%	100.0%	51.9%	59.5%	62.7%
800 N Capitol Street	306,194	100.0%	100.0%	100.0%	100.0%	97.2%
1901 Harrison Street	272,952	96.7%	89.4%	83.0%	84.1%	86.8%
830 1st Street	247,337	100.0%	100.0%	100.0%	100.0%	100.0%
1333 Broadway	239,801	75.4%	82.7%	72.4%	79.5%	80.7%
2100 Franklin Street(4)	209,837	0.0%	17.5%	17.5%	42.2%	54.8%
11620 Wilshire Blvd	191,075			85.1%	73.4%	66.4%
Penn Field	181,746	75.7%	71.9%	76.7%	78.7%	90.6%
7083 Hollywood Blvd	82,180	100.0%	100.0%	88.5%	28.0%	92.9%
260 Townsend	66,943	100.0%	100.0%	100.0%	100.0%	100.0%
11600 Wilshire Blvd	55,543			94.1%	85.0%	78.2%
Civic Center	37,116	67.1%	26.4%	100.0%	100.0%	100.0%
<b>Total/Weighted Average</b>	<b>5,361,905</b>	<b>89.0%</b>	<b>88.8%</b>	<b>79.6%</b>	<b>82.5%</b>	<b>85.3%</b>

- 1) Historical occupancies for Office properties are based on leases commenced as of December 31 of each historical year.

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

- 2) *Occupancy Rates for 980 9th Street and 211 Main Street were excluded from the 2009 column as they were acquired during the last two weeks of December 2009.*
- 3) *In September 2009, one of the two Union Square tenants leases expired and went into a holdover period.*
- 4) *2100 Franklin was vacant when acquired in 2008.*

**Table of Contents****Office Portfolio Historical Annualized Rents**

Property	Rentable Square Feet	Annualized Rent Per Occupied Square Foot(1)				
		2008	2009	2010	2011	2012
BB&T Center	553,056	\$ 17.73	\$ 20.56	\$ 20.50	\$ 22.31	\$ 22.55
1 Kaiser Plaza	532,969	35.19	36.45	36.66	35.40	36.68
2101 Webster Street	472,871	28.78	31.98	34.56	34.36	37.68
980 9th Street(2)	453,547			30.73	31.23	31.99
211 Main Street(2)	415,120			28.65	28.72	28.68
370 L Enfant Promenade	407,321	45.88	46.91	48.48	49.18	51.21
999 N Capitol(3)	321,980	40.41	45.27		41.65	42.08
899 N Capitol(3)	314,317	41.81	47.30	40.33	48.94	46.91
800 N Capitol Street	306,194	43.23	44.10	41.17	41.43	42.68
1901 Harrison Street	272,952	29.89	30.98	30.56	31.18	31.21
830 1st Street	247,337	37.81	37.43	36.43	39.00	39.89
1333 Broadway	239,801	25.86	26.61	27.23	30.22	29.62
2100 Franklin Street(4)	209,837	0.00	36.60	38.29	38.52	38.69
11620 Wilshire Blvd	191,075			34.56	37.79	35.76
Penn Field	181,746	17.31	19.33	20.08	20.68	23.94
7083 Hollywood Blvd	82,180	31.00	31.78	32.35	31.56	32.59
260 Townsend	66,943	26.61	29.17	29.88	31.00	31.71
11600 Wilshire Blvd	55,543			40.89	42.17	43.78
Civic Center	37,116	25.44	21.72	18.00	18.54	20.42
<b>Total/Weighted Average</b>	<b>5,361,905</b>	<b>\$ 32.88</b>	<b>\$ 35.44</b>	<b>\$ 33.11</b>	<b>\$ 34.30</b>	<b>\$ 35.42</b>

- 1) Annualized Rent Per Occupied Square Foot represents annualized gross rent divided by total occupied square feet as of December 31 of each historical year. Annualized gross rent was calculated by taking monthly base rent under leases commenced as of December 31 of each historical year, multiplied by twelve. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date. Annualized Rent for certain office properties includes rent attributable to retail and parking.
- 2) Annualized Rent Per Occupied Square Foot for 980 9th Street and 211 Main Street were excluded from the 2009 column as they were acquired during the last two weeks of December 2009.
- 3) In September 2009, one of the two Union Square tenants' leases expired and went into a holdover period. During the holdover period the tenant paid their normal rent plus a holdover premium. Union Square's 2009 Annualized Rent Per Occupied Square Foot includes twelve months of rent at the tenants normal rate, plus estimated reimbursements, plus four months of holdover rent premium.
- 4) 2100 Franklin was vacant when acquired in 2008.

**Multifamily Portfolio Key Operating Statistics by Property as of June 30, 2013**

Property	Units	Rentable Square Feet	Year Built	Year Acquired	Annualized Rent(1)	Monthly Rent per Leased Unit	Percent Leased Based on Units
4649 Cole Avenue	334	283,438	1994	2010	\$ 4,742,004	\$ 1,247	94.9%
Memorial Hills	308	297,405	2009	2010	6,063,487	1,707	96.1%
47 E 34th Street(2)	110	77,855	2009	2011	5,122,000	3,880	100.0%
3636 McKinney Avenue	103	98,335	2006	2010	1,855,938	1,563	96.1%
3839 McKinney Avenue	75	68,817	2006	2010	1,364,553	1,536	98.7%
<b>Total/Weighted Average</b>	<b>930</b>	<b>825,850</b>			<b>\$ 19,147,982</b>	<b>\$ 1,781</b>	<b>96.3%</b>

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

- 1) *Annualized rent represents gross monthly base rent under leases commenced as of June 30, 2013, multiplied by twelve. This amount reflects total cash rent before concessions. Total concessions for the twelve months ended June 30, 2013, were approximately \$0.3 million. Annualized Rent for 47 E 34th Street includes \$0.2 million of rent, exclusive of abatement, attributable to the first floor retail space.*
- 2) *47 E 34th Street is a mixed use project that is predominantly multifamily but has a first-floor retail component that is comprised of 2,950 square feet of retail and 897 square feet of storage space. The data presented above only relates to the multifamily portion of the project. As of June 30, 2013, the retail and storage space was 100% occupied by one tenant under a long-term lease.*

**Table of Contents****Multifamily Portfolio Historical Occupancy Rates**

Property	Units	Occupancy Rates(1)				
		2008	2009	2010	2011	2012
4649 Cole Avenue	334			92.2%	95.5%	92.2%
Memorial Hills	308			93.8%	96.4%	96.4%
47 E 34th Street(2)	110				100.0%	100.0%
3636 McKinney Ave	103			97.1%	94.2%	97.1%
3839 McKinney Ave	75			100.0%	97.3%	98.7%
<b>Total/Weighted Average</b>	<b>930</b>			<b>94.1%</b>	<b>96.3%</b>	<b>95.6%</b>

- 1) Historical occupancies are based on leases commenced as of December 31 of each historical year and were calculated using units and not square feet.  
 2) The property located at 47 E 34th Street's 2011 and 2012 occupancy rates exclude the retail portion of the property which was fully occupied on January 1, 2013.

**Multifamily Portfolio Historical Annualized Rents**

Property	Units	Annualized Rent Per Occupied Unit(1)				
		2008	2009	2010	2011	2012
4649 Cole Avenue	334			\$ 12,331	\$ 13,209	\$ 14,162
Memorial Hills	308			17,994	19,345	20,413
47 E 34th Street	110				43,636	44,545
3636 McKinney Ave	103			16,509	17,864	17,657
3839 McKinney Ave	75			15,949	16,691	17,747
<b>Total/Weighted Average</b>	<b>930</b>			<b>\$ 15,343</b>	<b>\$ 19,766</b>	<b>\$ 20,701</b>

- 1) Annualized Rent Per Occupied Unit represents annualized gross rent divided by total occupied units as of December 31 of each historical year. Annualized gross rent was calculated by taking monthly base rent under leases commenced as of December 31 of each historical year, multiplied by twelve.

**Hotel Portfolio Ownership, Franchise and Management as of June 30, 2013**

Market	Franchise	Hotel Owner/Lessor	Lessee	Manager
Oakland, CA	Courtyard	CIM Urban Partners, L.P.	N/A	RIM Hospitality
Sacramento, CA	Sheraton	CIM Urban Partners, L.P.	N/A	Starwood
Los Angeles, CA(1)	Holiday Inn	Brisam LAX (DE), LLC	N/A	Packard Hospitality Group, LLC

- 1) CIM Urban is the lender to the LAX Holiday Inn located in Los Angeles, CA and holds the first mortgage.

**Table of Contents****Hotel Portfolio Cost and Tax Basis as of December 31, 2012**

Market	Franchise	Number of Rooms/Suites	Gross Cost	Federal Income Tax Basis for Depreciable Real Property Component of Hotel	Year Built	Acquisition Date
Oakland, CA	Courtyard	162	\$ 22,600,857	\$ 21,072,663	2002	06/05/2007
Sacramento, CA(1)	Sheraton	503	123,431,859	121,403,520	2001	05/02/2008
<b>Total</b>		<b>665</b>	<b>\$ 146,032,716</b>	<b>\$ 142,476,183</b>		
Los Angeles, CA(2)	Holiday Inn	405	N/A	N/A	1973/2010	03/28/2008

- 1) Federal Income Tax Basis for Depreciable Real Property Component of Hotel for Sacramento Sheraton includes the Parking Garage adjacent to the Hotel.  
2) CIM Urban is the lender to the LAX Holiday Inn located in Los Angeles, CA and holds the first mortgage.

**Hotel Portfolio Key Operating Statistics by Submarket as of June 30, 2013**

Market	Submarket	Number of Properties	Number of Rooms	Percent Occupied(1)	Revenue Per Available Room (RevPAR)(2)
Sacramento, CA	Downtown/Midtown	1	503	77.6%	\$ 106.32
Oakland, CA	City Center	1	162	76.8%	96.90
<b>Total Hotel</b>		<b>2</b>	<b>665</b>	<b>77.4%</b>	<b>\$ 104.03</b>
Los Angeles, CA(3)	LAX	1	405	81.7%	\$ 64.76

**Ancillary Property**

Market	Submarket(1)	Number of Properties	Rentable Square Feet (Retail)	Percent Leased (Retail)(4)	Annualized Rent (Parking and Retail)(5)	Annualized Rent Per Leased Square Foot (Retail)
Sacramento, CA	Downtown/Midtown	1	9,453	87.9%	\$ 1,732,662	\$ 1.40

- 1) Occupancy percentage represents occupied rooms divided by available rooms. For the six-month period ended June 30, 2013.  
2) Revenue per Available Room represents rooms revenue divided by available rooms. For the six-month period ended June 30, 2013.  
3) CIM Urban is the lender to the hotel located in the LAX submarket of Los Angeles, CA and holds the first mortgage.  
4) Based on leases signed as of June 30, 2013.  
5) Represents gross monthly contractual rent under parking and retail leases commenced as of June 30, 2013, multiplied by twelve. For retail leases, this amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013, were immaterial. Where applicable for retail leases, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date.

**Hotel Portfolio Historical Occupancy Rate Data From January 1, 2008 to June 30, 2013**

Market	Franchise	Rooms	2008	2009	Occupancy (%) (1)			6/30/2013(5)
					2010	2011	2012	

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

Sacramento, CA(2)	Sheraton	503	67.8%	59.5%	67.0%	71.3%	73.0%	77.6%
Oakland, CA	Courtyard	162	68.4%	64.8%	69.9%	72.3%	77.7%	76.8%
Los Angeles, CA(3)		160	67.7%	64.4%	71.2%			
<b>Weighted Average</b>		<b>825</b>	<b>67.9%</b>	<b>61.5%</b>	<b>68.3%</b>	<b>71.6%</b>	<b>74.2%</b>	<b>77.4%</b>
Los Angeles, CA(4)	Holiday Inn	405	86.0%	83.9%	78.6%	77.6%	83.0%	81.7%

- 1) *Occupancy percentage represents occupied rooms divided by available rooms.*
- 2) *The Sheraton located in Sacramento, CA was purchased in May 2008; however the 2008 data presented above are for the full year and as such contain results prior to CIM Urban's ownership of the hotel. The Sheraton Grand Hotel Retail was 87.9% leased as of June 30, 2013 and the Retail together with the Parking Garage had annualized rent of \$1,732,662 as of June 30, 2013.*
- 3) *CIM Urban sold the 160 room hotel located in Los Angeles, CA on December 17, 2010. The 2010 metrics presented above are for a partial year and represent the values for CIM Urban's period of ownership only.*
- 4) *CIM Urban is the lender to the LAX Holiday Inn and holds the first mortgage.*
- 5) *Represents Occupancy Rate for the six months ended June 30, 2013.*



**Table of Contents****Hotel Portfolio Historical Average Daily Rate ( ADR ) Data From January 1, 2008 to June 30, 2013**

Market	Franchise	Rooms	ADR (Price) Per Room/Suite \$(1)					6/30/2013(5)
			2008	2009	2010	2011	2012	
Sacramento, CA(2)	Sheraton	503	\$ 150.14	\$ 135.93	\$ 129.13	\$ 129.83	\$ 130.82	\$ 136.99
Oakland, CA	Courtyard	162	133.53	110.09	109.31	115.22	122.95	126.09
Los Angeles, CA(3)		160	130.93	109.80	118.67			
<b>Weighted Average</b>		<b>825</b>	<b>\$ 143.14</b>	<b>\$ 125.28</b>	<b>\$ 123.08</b>	<b>\$ 126.23</b>	<b>\$ 128.81</b>	<b>\$ 134.36</b>
Los Angeles, CA(4)	Holiday Inn	405	\$ 85.91	\$ 68.08	\$ 73.10	\$ 78.31	\$ 79.73	\$ 79.23

- 1) Average daily rate represents rooms revenue divided by occupied rooms.
- 2) The Sheraton located in Sacramento, CA was purchased in May 2008; however the 2008 metrics presented above are for the full year and as such contain results prior to CIM Urban's ownership of the hotel.
- 3) CIM Urban sold the 160 room hotel located in Los Angeles, CA on December 17, 2010. The 2010 metrics presented above are for a partial year and represent the values for CIM Urban's period of ownership only.
- 4) CIM Urban is the lender to the LAX Holiday Inn and holds the first mortgage.
- 5) Represents ADR for the six months ended June 30, 2013.

**Hotel Portfolio Historical Revenue per Available Room/Suite Data From January 1, 2008 to June 30, 2013**

Market	Franchise	Rooms	Revenue Per Available Room/Suite \$(1)					6/30/2013(5)
			2008	2009	2010	2011	2012	
Sacramento, CA(2)	Sheraton	503	\$ 101.87	\$ 80.92	\$ 86.45	\$ 92.61	\$ 95.54	\$ 106.32
Oakland, CA	Courtyard	162	91.40	71.35	76.36	83.36	95.57	96.90
Los Angeles, CA(3)		160	88.58	70.68	84.51			
<b>Weighted Average</b>		<b>825</b>	<b>\$ 97.23</b>	<b>\$ 77.06</b>	<b>\$ 84.09</b>	<b>\$ 90.36</b>	<b>\$ 95.55</b>	<b>\$ 104.03</b>
Los Angeles, CA(4)	Holiday Inn	405	\$ 73.88	\$ 57.10	\$ 57.49	\$ 60.78	\$ 66.17	\$ 64.76

- 1) Revenue per Available Room represents rooms revenue divided by available rooms.
- 2) The Sheraton located in Sacramento, CA was purchased in May 2008; however the 2008 metrics presented above are for the full year and as such contain results prior to CIM Urban's ownership of the hotel.
- 3) CIM Urban sold the 160 room hotel located in Los Angeles, CA on December 17, 2010. The 2010 metrics presented above are for a partial year and represent the values for CIM Urban's period of ownership only.
- 4) CIM Urban is the lender to the LAX Holiday Inn and holds the first mortgage.
- 5) Represents Revenue Per Available Room/Suite for the six months ended June 30, 2013.

**Table of Contents****CIM Urban Real Estate and Accumulated Depreciation As of December 31, 2012**

(\$ in Thousands)

Property Name	City and State	Encumbrances	Initial Cost		Net Improvements Since Acquisitions	Gross Amount at Which Carried			Accumulated Depreciation	Year Acquired
			Land	Building/Improvements(1)		Land	Building/Improvements(1)	Total		
<b>Office</b>										
7083 Hollywood Blvd	Los Angeles, CA	\$	\$ 6,276	\$ 13,161	\$ 4,840	\$ 6,276	\$ 18,001	\$ 24,277	\$ 4,835	2005
800 N Capitol Street	Washington, DC	66,877		109,948	742		110,690	110,690	27,811	2005
370 L Enfant Promenade	Washington, DC	29,633	33,936	145,796	4,841	33,936	150,637	184,573	36,278	2005
260 Townsend	San Francisco, CA		7,574	13,843		7,574	13,843	21,417	4,592	2006
830 1st Street	Washington, DC	46,000	18,095	62,017	152	18,095	62,169	80,264	14,843	2006
BB&T Center	Charlotte, NC		7,702	109,006	7,287	7,702	116,293	123,995	25,584	2007
Civic Center	Santa Ana, CA		1,354	5,496	2,315	1,354	7,811	9,165	2,331	2007
Penn Field	Austin, TX	13,015	9,569	18,593	6,307	9,569	24,900	34,469	7,803	2007
899 N Capitol Street	Washington, DC		34,641	84,466	12,137	34,641	96,603	131,244	17,211	2007
999 N Capitol Street	Washington, DC		32,221	86,526	12,433	32,221	98,959	131,180	17,630	2007
901 N Capitol Street	Washington, DC		27,117			27,117		27,117		2007
1333 Broadway	Oakland, CA		7,048	41,578	3,626	7,048	45,204	52,252	6,864	2008
1901 Harrison Street	Oakland, CA		3,838	68,106	3,961	3,838	72,067	75,905	11,124	2008
2100 Franklin Street	Oakland, CA		4,277	34,033	7,319	4,277	41,352	45,629	5,761	2008
2101 Webster Street	Oakland, CA		4,752	109,812	21,788	4,752	131,600	136,352	21,741	2008
2353 Webster Street										
Parking Garage	Oakland, CA			9,138	49		9,187	9,187	976	2008
1 Kaiser Plaza	Oakland, CA		9,261	113,619	8,799	9,261	122,418	131,679	18,636	2008
980 9th Street	Sacramento, CA		3,380	86,939	5,925	3,380	92,864	96,244	11,378	2009
1010 8th Street										
<b>Parking</b>										
Garage & Retail	Sacramento, CA		1,020	1,980	51	1,020	2,031	3,051	361	2009
211 Main Street	San Francisco, CA	37,268	14,364	106,875	777	14,364	107,652	122,016	12,488	2009
11600 Wilshire Blvd	Los Angeles, CA	10,748	3,477	18,522	1,415	3,477	19,937	23,414	1,877	2010
11620 Wilshire Blvd	Los Angeles, CA	35,391	7,672	51,999	2,351	7,672	54,350	62,022	4,982	2010
<b>Multifamily</b>										
3636 McKinney Avenue	Dallas, TX	\$ 9,996	\$ 3,806	\$ 11,077	\$ 71	\$ 3,806	\$ 11,148	\$ 14,954	\$ 887	2010
3839 McKinney Avenue	Dallas, TX	6,631	1,679	8,621	67	1,679	8,688	10,367	693	2010
4649 Cole Avenue	Dallas, TX	25,153	17,483	16,355	2,776	17,483	19,131	36,614	1,453	2010
Memorial Hills	Houston, TX	31,305	9,811	40,150	54	9,811	40,204	50,015	3,265	2010
47 E 34th Street	New York, NY		30,612	31,145	99	30,612	31,244	61,856	944	2011
<b>Hotel</b>										
Courtyard Oakland	Oakland, CA		\$ 4,384	\$ 16,168	\$ 2,048	\$ 4,384	\$ 18,216	\$ 22,600	\$ 4,519	2007
Sheraton Grand Hotel	Sacramento, CA		10,049	107,447	5,935	10,049	113,382	123,431	21,436	2008
Sheraton Grand Hotel										
Parking Garage & Retail	Sacramento, CA			10,996	73		11,069	11,069	1,922	2008
LAX Holiday Inn										
First Mortgage <sup>2</sup>	Los Angeles, CA									2008

- 1) Building / Improvements includes tenant improvements, tenant allowance, work in process, furniture, fixtures and equipment and land improvements.  
2) CIM Urban is the lender to the LAX Holiday Inn and holds the first mortgage.



**Table of Contents****CIM Urban Federal Income Tax Basis of Properties as of December 31, 2012(1)**

<b>Property</b>	<b>City and State</b>	<b>Rentable Square Feet</b>	<b>Gross Cost</b>	<b>Federal Income Tax Basis for Depreciable Real Property Component of Property</b>	<b>Year Built</b>	<b>Acquisition Date</b>
<b>Office Properties</b>						
7083 Hollywood Blvd	Los Angeles, CA	82,180	\$ 24,276,372	\$ 20,632,698	1981	05/20/2005
800 N Capitol Street	Washington, DC	306,194	110,690,371	109,146,891	1991	11/02/2005
370 L Enfant Prom	Washington, DC	407,321	184,572,991	162,459,136	1987	12/30/2005
260 Townsend	San Francisco, CA	66,943	21,417,103	22,348,887	1986	03/24/2006
830 1st Street	Washington, DC	247,337	80,264,172	78,566,484	2002	05/03/2006
BB&T Center	Charlotte, NC	553,056	123,995,256	110,144,939	1977	01/25/2007
Civic Center	Santa Ana, CA	37,116	9,164,687	8,846,546	1980	05/22/2007
Penn Field	Austin, TX	181,746	34,469,467	32,222,459	1918	10/23/2007
999 N Capitol Street	Washington, DC	321,980	131,179,063	73,038,851	1969-1973	11/20/2007
899 N Capitol Street	Washington, DC	314,317	131,243,549	69,109,246	1969-1973	11/20/2007
1333 Broadway	Oakland, CA	239,801	52,251,969	47,128,452	1972	10/08/2008
1901 Harrison Street	Oakland, CA	272,952	75,905,459	64,967,828	1985	10/08/2008
2100 Franklin Street(2)	Oakland, CA	209,837	45,628,815	173,619,791	2008	10/08/2008
2101 Webster Street(2)	Oakland, CA	472,871	136,351,136	N/A	1984	10/08/2008
1 Kaiser Plaza	Oakland, CA	532,969	131,678,683	123,423,838	1970	10/08/2008
980 9th Street	Sacramento, CA	453,547	96,244,128	92,509,270	1992	12/18/2009
211 Main Street	San Francisco, CA	415,120	122,014,991	106,237,633	1973	12/23/2009
11600 Wilshire Blvd	Los Angeles, CA	55,543	23,414,306	23,276,386	1955	05/04/2010
11620 Wilshire Blvd	Los Angeles, CA	191,075	62,021,932	61,953,586	1976	06/17/2010
		<b>5,361,905</b>	<b>\$ 1,596,784,450</b>	<b>\$ 1,379,632,921</b>		
<b>Ancillary Office Properties</b>						
901 N Capitol Street(3)	Washington, DC		\$ 27,117,377	\$ 20,368,801	N/A	11/20/2007
2353 Webster Street						
Parking Garage	Oakland, CA		9,186,266	2,706,286	2008	10/08/2008
1010 8th Street Parking Garage & Retail	Sacramento, CA	12,275	3,051,477	2,496,664	1992	12/18/2009
		<b>12,275</b>	<b>\$ 39,355,120</b>	<b>\$ 25,571,751</b>		
<b>Total Office Portfolio</b>		<b>5,374,180</b>	<b>\$ 1,636,139,570</b>	<b>\$ 1,405,204,672</b>		
<b>Multifamily Properties</b>						
4649 Cole Avenue	Dallas, TX	334	\$ 36,614,249	\$ 34,754,015	1994	02/18/2010
Memorial Hills	Houston, TX	308	50,015,450	49,464,982	2009	02/18/2010
3636 McKinney Avenue	Dallas, TX	103	14,954,208	14,102,763	2006	02/18/2010
3839 McKinney Avenue	Dallas, TX	75	10,367,221	9,657,773	2006	02/18/2010
47 E 34th Street	New York, NY	110	61,855,501	67,194,840	2009	05/12/2011
<b>Total Multifamily Portfolio</b>		<b>930</b>	<b>\$ 173,806,629</b>	<b>\$ 175,174,373</b>		
<b>Hotel Properties</b>						
Courtyard Oakland	Oakland, CA	162	\$ 22,600,857	\$ 21,072,663	2002	06/05/2007
Sheraton Grand Hotel(2)	Sacramento, CA	503	123,431,859	121,403,520	2001	05/02/2008

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

**Total Hotel Properties** 665 \$ 146,032,716 \$ 142,476,183

**Rentable  
Square  
Feet (Retail)**

***Ancillary Hotel Property***

Sheraton Grand Hotel Parking Garage & Retail(2)	Sacramento, CA	9,453	\$ 11,069,337		2001	05/02/2008
---	----------------	-------	---------------	--	------	------------

**Total Hotel Portfolio** 9,453 \$ 157,102,053 \$ 142,476,183

**Total Portfolio** \$ 1,967,048,252 \$ 1,722,855,228

156

**Table of Contents**

- 1) Straight-line depreciation method is used for all properties. Depreciable life for all Office properties (including ancillary) of 5 39 years. Depreciable life for all Multifamily properties of 5 27 years. Depreciable life for all Hotel properties (including ancillary) of 5 39 years.
- 2) For tax purposes, 2100 Franklin and 2101 Webster as well as the Sheraton Grand Hotel and Sheraton Hotel Parking Garage & Retail are not depreciated as separate assets. The Federal Income Tax Basis for 2100 Franklin and 2101 Webster was \$173,619,791. The Federal Income Tax Basis for the Sheraton Grand Hotel and Sheraton Hotel Parking Garage & Retail was \$121,403,520.
- 3) 901 N Capitol Street is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. CIM Urban has the right to develop an additional 270,172 square foot building on such parcel.

**CIM Urban Indebtedness as of June 30, 2013**

Property	Outstanding Principal Balance	Interest Rate	Maturity Date	Balance Due At Maturity Date	Prepayment/ Defeasance
800 N Capitol Street	\$ 65,653,832	6.30%	09/10/2013	\$ 65,146,785	Note 1
800 N Capitol Street	78,895	6.30%	09/10/2013		Note 2
11600 Wilshire Boulevard	10,626,004	5.95%	12/01/2013	10,500,164	Note 3
Penn Field	12,876,662	5.56%	07/01/2015	12,287,725	Note 4
11620 Wilshire Boulevard	34,989,777	5.06%	09/01/2015	33,068,178	Note 5
370 L Enfant Promenade	28,960,445	7.66%	12/01/2015	25,323,858	Note 6
211 Main Street	36,028,784	6.65%	07/15/2018	21,136,209	Note 7
4649 Cole Avenue	24,970,121	5.39%	03/01/2021	21,489,640	Note 8
3636 McKinney Avenue	9,923,637	5.39%	03/01/2021	8,540,422	Note 9
3839 McKinney Avenue	6,582,776	5.39%	03/01/2021	5,665,231	Note 10
Memorial Hills Apartment Building	31,061,774	5.18%	06/05/2021	26,231,655	Note 11
830 1st Street	46,000,000	4.50%	01/05/2027	42,008,187	Note 12
<b>Total/Weighted Average</b>	<b>\$ 307,752,707</b>	<b>5.78%</b>		<b>\$ 271,398,054</b>	

- 1) Loan is prepayable but is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the outstanding principal balance or (b) the present value of the remaining principal and interest payments less the amount of principal being prepaid, provided such difference shall not be less than zero.
- 2) Loan is prepayable but is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the outstanding principal balance or (b) the present value of the remaining principal and interest payments less the amount of principal being prepaid, provided such difference shall not be less than zero.
- 3) Loan may not be prepaid. Loan may be defeased at any time.
- 4) Loan is prepayable but is subject to a prepayment fee equal to the interest that would have been due for the month in which the prepayment occurred. If the loan is prepaid prior to April 1, 2015 an additional prepayment fee equal to the greater of (a) one percent (1%) of the amount prepaid or (b) the amount by which the present value of all unpaid principal and interest payments exceeds a specified threshold is due. Loan may also be defeased up until June 1, 2015.
- 5) Loan may not be prepaid. Loan may be defeased at any time.
- 6) Loan is prepayable but is subject to a prepayment fee equal to the difference between (a) the present value of all remaining payments of principal and interest and (b) the amount of principal being prepaid, but in no event shall the prepayment fee be less than one percent (1%).
- 7) Loan is prepayable but is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the outstanding principal balance of the note or (b) modified yield maintenance.
- 8) Loan is prepayable but if prepaid prior to August 31, 2020 is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the principal being prepaid or (b) yield maintenance.
- 9) Loan is prepayable but if prepaid prior to August 31, 2020 is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the principal being prepaid or (b) yield maintenance.
- 10) Loan is prepayable but if prepaid prior to August 31, 2020 is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the principal being prepaid or (b) yield maintenance.
- 11) Loan is prepayable but is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the principal amount being prepaid multiplied by the quotient of the number of months until maturity divided by the term of the note or (b) the present value of the loan less the amount being prepaid.
- 12) Loan is prepayable but is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the principal amount being prepaid multiplied by the quotient of the number of months until maturity divided by the term of the note or (b) the present value of the loan less the principal and accrued interest being prepaid.

## **Table of Contents**

### **CIM Urban Partnership Agreement**

CIM Urban is governed by the CIM Urban Partnership Agreement, which will remain in place following consummation of the Merger. CIM Urban GP has the full, exclusive and complete right, power, authority, discretion and responsibility vested in or assumed by a general partner of a limited partnership under the Delaware Revised Uniform Limited Partnership Act and as otherwise provided by law and is vested with the full, exclusive and complete right, power and discretion to operate, manage and control the affairs of CIM Urban, subject to the terms of the CIM Urban Partnership Agreement.

### ***Advisory Committee***

The advisory committee of CIM Urban consists of representatives of certain non-affiliated class A members of CIM REIT. Pursuant to the CIM Urban Partnership Agreement, the advisory committee will after the Merger continue to have certain rights and functions, including the following:

resolving issues involving conflicts of interest to the extent not otherwise provided for under the CIM Urban Partnership Agreement; and

at its election, selecting a new audit firm.

The advisory committee and other members of CIM REIT are entitled to certain information rights with respect to CIM Urban, including the right to inspect, copy and audit its books and records.

### ***Business Restrictions***

Pursuant to the CIM Urban Partnership Agreement, CIM Urban may not:

except with the approval of its advisory committee, invest more than the lesser of (x) 25% of the aggregate capital commitments of its partners and (y) \$500 million of capital contributions in any one asset or company; provided, however, that the foregoing limitation shall not apply to an investment consisting of a portfolio of, or a company or other entity owning, multiple assets (i.e., the foregoing limitation shall apply to each individual asset in any such portfolio or entity);

except with the approval of its advisory committee, (i) invest more than 25% of the aggregate capital commitments of its partners in any MSA with a population of 1,000,000 or less or in any recognized real estate submarket of an MSA with a population of more than 1,000,000 or (ii) invest more than 50% of the aggregate capital commitments of its partners in any MSA with a population of more than 1,000,000;

except with the approval of its advisory committee, invest in the securities of a publicly-traded company, except as part of a transaction or series of transactions designed for the purpose of acquiring control of the company and/or its underlying assets;

take any actions, or make any investments, that the CIM Urban GP reasonably believes is likely to cause CIM REIT not to qualify as a REIT; or

## **Table of Contents**

except with the approval of its advisory committee, acquire or originate any senior debt (i.e., first mortgage loans) if the acquisition or origination by CIM Urban of such senior debt would cause the aggregate adjusted fair value of all CIM Urban investments that are senior debt to equal or exceed 25% of the aggregate adjusted fair value of all CIM Urban investments (including, without duplication, any property level reserves with respect to such investments).

### ***Removal of General Partner***

The class A members of CIM REIT, upon a two-thirds vote of the interests of such members, may remove and replace CIM Urban GP as the general partner of CIM Urban if (a) prior to the consummation of certain public transactions (including the transactions contemplated by the Merger Agreement), CIM Urban GP commits willful misconduct, fraud, gross negligence or other material breach of the CIM Urban Partnership Agreement, (b) certain affiliates and related parties of CIM Urban GP cease to own at least 85% of the class A membership units of CIM REIT that they have acquired or (c) any two of Shaul Kuba, Richard Ressler or Avraham Shemesh cease to be actively engaged in the management of the general partner.

### ***Amendments***

Subject to certain limited exceptions, amendments of the CIM Urban Partnership Agreement may be adopted only with the consent of the majority in interest of the class A members of CIM REIT who are not affiliates of CIM Urban GP.

### ***Expenses***

All expenses and obligations of CIM REIT must be paid for or reimbursed by CIM Urban. CIM Urban is also responsible for certain out of pocket operating expenses of CIM Urban GP.

### ***Liability for Acts and Omissions***

None of CIM Urban GP, any member of the advisory committee or any of their respective affiliates, members, shareholders, partners, managers, officers, directors, employees, agents and representatives will have any liability in damages or otherwise to any limited partner, any investors in CIM REIT or CIM Urban, and CIM Urban will indemnify such persons from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, proceedings, costs, expenses and disbursements of any kind which may be imposed on, incurred by or asserted against such persons in any way relating to or arising out of any action or inaction on the part of such persons when acting on behalf of CIM Urban or any of its investments, except for those liabilities that result from such persons' fraud, gross negligence, willful misconduct or breach of the terms of the CIM Urban Partnership Agreement or any other agreement between such person and CIM Urban or its affiliates.

### ***Investment Management Agreement***

CIM Urban and the Advisor are parties to an Investment Management Agreement pursuant to which CIM Urban engaged the Advisor to provide investment advisory services to CIM Urban. The Advisor manages CIM Urban's investments in accordance with the investment objectives, policies and restrictions set forth in the CIM Urban Partnership Agreement.

The Advisor is entitled to receive from CIM Urban, as compensation for the Advisor's management services, an annual management fee, payable quarterly in arrears, in an amount that is based on the daily average adjusted fair value of CIM Urban's investments during such quarter.



## **Table of Contents**

The Advisor is responsible for the payment of all costs and expenses relating to the general operation of its business, including administrative expenses, employment expenses and office expenses. All costs and expenses incurred by the Advisor on behalf of CIM Urban are borne by CIM Urban. In addition, CIM Urban will indemnify the Advisor against losses, claims, damages or liabilities, and reimburse the Advisor for its legal and other expenses, in each case incurred in connection with any action, proceeding or investigation arising out of or in connection with CIM Urban's business or affairs, except to the extent such losses or expenses result from fraud, gross negligence or willful misconduct of, or any violation of securities law or other intentional criminal wrongdoing or a breach of the terms of the Investment Management Agreement by, the Advisor. The Advisor will indemnify CIM Urban against any losses, claims, damages or liabilities to which CIM Urban becomes subject in connection with any matter arising out of or in connection with CIM Urban's business or affairs that results from the Advisor's fraud, gross negligence, willful misconduct or breach of the Investment Management Agreement.

Nothing in the Investment Management Agreement limits or restricts the right of any partner, officer or employee of the Advisor to engage in any other business or to devote his time and attention in part to any other business. Nothing in the Investment Management Agreement limits or restricts the right of the Advisor to engage in any other business or to render services of any kind to any other person.

The Investment Management Agreement will remain in effect until CIM Urban is dissolved or CIM Urban and the Advisor otherwise mutually agree.

## **Financing Strategy**

CIM Urban has substantial borrowing capacity, and may finance its future activities through any of the following methods: (i) the addition of senior, non-recourse debt using target acquisitions as well as existing investments as collateral; (ii) the use and potential expansion of its existing revolving credit lines or the use of a new credit line; (iii) new offerings of common shares, preferred shares, senior securities, and other equity and debt securities; (iv) formation of an open-ended REIT; and (v) the sale of existing investments. CIM Urban expects to maintain leverage levels that are comparable to those of other commercial property REITs engaged in business strategies similar to its own.

## **Risk Management**

As part of its risk management strategy, CIM Group will continually evaluate CIM Urban's investments and actively manage the risks involved in its business strategies. CIM Group's investment professionals will provide asset management oversight by closely monitoring the performance of CIM Urban's investments relative to market and industry benchmarks and internal underwriting assumptions using direct knowledge of local markets provided by CIM Group's in-house asset management, property management, and leasing management professionals. In-house property management capabilities include monthly and annual budgeting and reporting as well as vendor services management, property maintenance and capital expenditures management. Management monitors that revenue objectives are met, lease terms are followed, receivables are collected, preventative maintenance programs are implemented, vendors are evaluated and expenses are controlled. CIM Group's Asset Management Committee oversees the asset management of investments and consists of several CIM principals. This committee reviews and approves strategic plans for the investments, including financial and operational analyses, operating strategies and agreements, tenant composition and marketing, asset positioning, market conditions affecting the asset, hold/sell analyses and timing considerations. In addition, the Asset Management Committee reviews and approves the annual business plan for each asset, including its capital and operating budget.

## **Table of Contents**

### **Regulatory Matters**

#### ***Environmental Matters***

Environmental laws regulate, and impose liability for, releases of hazardous or toxic substances into the environment. Under various of these laws, an owner or operator of real estate is or may be liable for costs related to soil or groundwater contamination on, in, or migrating to or from its property. In addition, persons who arrange for the disposal or treatment of hazardous or toxic substances may be liable for the costs of cleaning up contamination at the disposal site. Such laws often impose liability regardless of whether the person knew of, or was responsible for, the presence of the hazardous or toxic substances that caused the contamination. The presence of, or contamination resulting from, any of these substances, or the failure to properly remediate them, may adversely affect CIM Urban's ability to sell or rent its property or to borrow using such property as collateral. Third parties may also make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous materials. As part of CIM Urban's efforts to mitigate these risks, CIM Urban typically engages third parties to perform assessments of potential environmental risks when evaluating a new acquisition of property.

#### ***Americans with Disabilities Act of 1990***

Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Although CIM Urban believes that its properties substantially comply with present requirements of the ADA, it has not conducted an audit or investigation of all of its properties to determine its compliance. If one or more of its properties or future properties is not in compliance with the ADA, then CIM Urban would be required to incur additional costs to bring the property into compliance. CIM Urban cannot predict the ultimate amount of the cost of compliance with the ADA. If CIM Urban incurs substantial costs to comply with the ADA, its financial condition, results of operations, cash flow, ability to satisfy its debt service obligations and to pay dividends could be adversely affected.

### **Competition**

CIM Urban competes with other investors engaged in the acquisition, development, and management of real estate and real estate-related investments. Its competitors include other REITs, insurance companies, pension funds, private equity funds, sovereign wealth funds, hedge funds, mortgage banks, investment banks, commercial banks, savings and loan associations, specialty finance companies, and other private and institutional investors and financial companies that pursue strategies similar to CIM Urban. Some of CIM Urban's competitors may be larger than CIM Urban and have greater access to capital and other resources and may have other advantages over CIM Urban. In addition, some of CIM Urban's competitors may have higher risk tolerances or lower profitability targets than CIM Urban, which could allow them to pursue new business more aggressively than CIM Urban. CIM Urban believes that its relationship with CIM Group gives it a competitive advantage that allows it to operate more effectively in the markets in which it conducts its business.

### **Management**

Currently, CIM REIT is externally managed by an affiliate of CIM Group, which provides consulting, advisory, and other services to CIM REIT as the director of CIM REIT. It is contemplated that new investments/business lines that CIM Urban may pursue in the future may be either internally managed or externally managed by CIM Group or an affiliate pursuant to the Master Services Agreement and/or new or existing investment management agreements.

### **Legal Proceedings**

None of CIM REIT, CIM Urban or CIM Group are currently subject to any legal proceedings that CIM REIT, CIM Urban or CIM Group consider to be material.

---

**Table of Contents**

**CIM URBAN'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations includes many forward-looking statements. For cautions about relying on such forward-looking statements, please see CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS on page 59.*

**Executive Summary**

**Overview**

CIM Urban and its subsidiaries invest primarily in substantially stabilized real estate and real estate-related assets located in high density, high barrier to entry urban markets throughout North America. CIM Group seeks investment opportunities that are likely, in CIM Group's opinion, to experience above-average rent growth relative to both national averages and their neighboring CBDs. CIM Urban is managed by CIM Group, a related party. CIM Group is an integrated, full-service investment manager with in-house research, acquisition, investment, development, finance, leasing and management capabilities.

CIM Urban's office, multifamily and hotel assets are located in 11 U.S. markets—Oakland, Sacramento, Los Angeles, San Francisco, Austin, Dallas, Houston, New York, Charlotte, District of Columbia and Orange County, CA. As of June 30, 2013, CIM Urban's portfolio was comprised of 31 properties, including one leasehold property and one mortgage loan asset. Currently, CIM Urban has 19 office properties, totaling approximately 5.4 million rentable square feet; 5 multifamily buildings, totaling 930 units; 2 hotels, totaling 665 rooms with 9,453 square feet of ancillary retail; a first mortgage on a 405-key full service hotel, 3 ancillary parking garages and one development site. CIM Urban may, at times, make new real estate acquisitions in markets in which CIM Urban does not currently have investments. New investments are targeted in urban markets that have been, or will be, researched and approved by CIM Group and meet the qualification criteria to become a qualified community. As of June 30, 2013 and December 31, 2012, the office portfolio was 86.3% and 85.3% occupied, respectively. As of June 30, 2013 and December 31, 2012, CIM Urban's multifamily portfolio, which is comprised of 930 apartment units, was 96.3% and 95.6% occupied, respectively, with an average annual rental rate of \$21,371 per unit and \$20,701 per unit, respectively. CIM Urban's hotel portfolio had a 0.6% increase in RevPAR for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 and a 5.7% increase in RevPAR for the year ended December 31, 2012 compared to the 2011 period.

During the six months ended June 30, 2013 and the year ended December 31, 2012, CIM Urban did not engage in any acquisitions, dispositions, development or repositioning of real property.

**Funds From Operations**

CIM Urban discloses Funds From Operations (FFO) because it believes that FFO is a widely recognized and appropriate measure of the performance of a REIT. CIM Urban believes FFO is frequently used by security analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO represents net income (loss), computed in accordance with GAAP, excluding gains (or losses) from sales of real estate, real estate depreciation and amortization (other than amortization of deferred financing costs), and after adjustments for non-controlling interests. CIM Urban calculates FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (NAREIT).

Like any metric, FFO should not be used as the only measure of CIM Urban's performance, because it excludes depreciation and amortization and captures neither the changes in the value of CIM Urban's properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of CIM Urban's properties, all of which have real economic effect and could materially impact CIM Urban's results from operations. Other REITs may not calculate FFO in accordance with NAREIT, accordingly, CIM Urban's FFO may not be comparable to those other REITs' FFO. Therefore,

**Table of Contents**

FFO should be considered only as a supplement to net income as a measure of CIM Urban's performance and should not be used as a supplement to or substitute measure for cash flow from operating activities computed in accordance with GAAP. FFO should not be used as a measure of CIM Urban's liquidity, nor is it indicative of funds available to fund CIM Urban's cash needs, including CIM Urban's ability to pay dividends.

The following table sets forth a reconciliation of CIM Urban's FFO to net income computed in accordance with GAAP:

	For the Six Months Ended June 30,		For the Years Ended December 31,		
	2013	2012	2012	2011	2010
<i>(in Thousands)</i>					
Net income attributable to CIM Urban	\$ 10,521	\$ 12,056	\$ 19,589	\$ 6,122	\$ 13,528
Depreciation and amortization	34,670	34,591	69,943	68,804	71,204
Depreciation and amortization - discontinued operations					935
(Gain) from disposition of discontinued operations					(7,447)
Net income attributable to noncontrolling interests	109	106	208	187	137
<b>Funds From Operations (FFO)</b>	<b>\$ 45,300</b>	<b>\$ 46,753</b>	<b>\$ 89,740</b>	<b>\$ 75,113</b>	<b>\$ 78,357</b>

Total FFO decreased to \$45,300,000, or by 3.1%, for the six months ended June 30, 2013, compared to \$46,753,000 for the six months ended June 30, 2012. The decrease was primarily attributable to approximately \$1,394,000 of transaction-related costs in the 2013 period related to the proposed merger with PMC Commercial. Improved results from CIM Urban's office and multifamily portfolios were partially offset by lower operating income generated from CIM Urban's hotel segment primarily due to the LAX Holiday Inn First Mortgage currently being in default by the borrower.

Total FFO increased to \$89,740,000, or 19.5%, for the year ended December 31, 2012, compared to \$75,113,000 for the year ended December 31, 2011. The increase was primarily attributable to improved operations as well as additional net income from a multifamily property acquired in 2011. For the year ended December 31, 2011, FFO decreased to \$75,113,000, or 4.1%, compared to \$78,357,000 for the year ended December 31, 2010. The decrease is primarily due to reduced income from certain properties that experienced significant tenant loss and the sale of a property in 2010. Overall, the aforementioned decreases were partially offset by increased income as a result of property acquisitions in 2011 and 2010.

**Rental Rate Trends**

**Office Rental Rates:** The following table sets forth the annualized rent per leased square foot across CIM Urban's office portfolio as of the specified periods:

	As of June 30,		As of December 31,		
	2013	2012	2012	2011	2010
Annualized Rent per Leased Square Foot(1)	\$ 35.47	\$ 34.03	\$ 35.42	\$ 34.30	\$ 33.11

- 1) Represents gross monthly base rent under leases commenced as of the specified periods, multiplied by twelve. This amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2013, were approximately \$11.8 million. Where applicable, annualized rent has been converted from triple net to gross by adding expense reimbursements to base rent, which may be estimated as of such date. Annualized Rent for certain office properties includes rent attributable to retail and parking.

**Table of Contents**

**Multifamily Rental Rates:** The following table sets forth the monthly rent per leased unit across CIM Urban's multifamily portfolio for the specified periods:

	As of June 30,		As of December 31,		
	2013	2012	2012	2011	2010
Monthly Rent per Leased Unit(1)	\$ 1,781	\$ 1,697	\$ 1,725	\$ 1,647	\$ 1,279

1) Represents gross monthly base rent under leases as of the specified period, divided by leased units. This amount reflects total cash rent before concessions.

**Occupancy Rates:** The following tables set forth the occupancy rates for CIM Urban's office and multifamily real estate portfolios as of the specified periods:

	For the Six Months Ended June 30,		For the Years Ended December 31,		
	2013	2012	2012	2011	2010
Office portfolio	86.3%	84.8%	85.3%	82.5%	79.6%
Multifamily portfolio	96.3%	95.9%	95.6%	96.3%	94.1%

**Hotel Statistics:** The following table sets forth the occupancy, average daily rate (ADR) and revenue per available room (RevPAR) for the hotel portfolio for the specified periods:

**Rental Rate Trends Hotel Statistics(1)**

	For the Six Months Ended June 30,		For the Years Ended December 31,		
	2013	2012	2012	2011	2010(2)
Occupancy	77.4%	74.8%	74.2%	71.6%	68.3%
ADR	\$ 134.36	\$ 138.25	\$ 128.81	\$ 126.23	\$ 123.08
RevPAR	\$ 104.03	\$ 103.46	\$ 95.55	\$ 90.36	\$ 84.09

1) Excludes LAX Holiday Inn, for which CIM Urban is the lender and holds the first mortgage.

2) CIM Urban sold a 160 room hotel located in Los Angeles, CA on December 17, 2010. The 2010 data provided above is for a partial year and represents the data for CIM Urban's period of ownership only.

**Results of Operations**

The accompanying unaudited consolidated financial statements as of June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012 included elsewhere in this proxy statement/prospectus are the consolidated financial statements of CIM Urban. All significant intercompany balances and transactions have been eliminated in the CIM Urban consolidated financial statements. The accompanying audited consolidated financial statements as of December 31, 2012 and 2011 and for the three years ended December 31, 2012 are the consolidated financial statements of CIM Urban. All significant intercompany balances and transactions have been eliminated in the CIM Urban consolidated financial statements.

The comparability of CIM Urban's results of operations in 2013, 2012 and 2011 is affected by acquisitions completed in 2011 and 2010 and the impact of a hotel sale in 2010. See notes 3 and 4 to CIM Urban's consolidated financial statements.

**Table of Contents****Comparison of Three Months Ended June 30, 2013 to the Three Months Ended June 30, 2012**

Net income attributable to partners decreased to \$4,694,000, or 16.2%, for the three months ended June 30, 2013 compared to \$5,600,000 for the three months ended June 30, 2012. The decrease was primarily attributable to \$1,394,000 of transaction-related costs in the 2013 period related to the proposed merger with PMC Commercial. In addition, CIM Urban experienced improved results from its office and multifamily portfolios, which were partially offset by lower operating income generated from CIM Urban's hotel segment, primarily due to reduced income from the LAX Holiday Inn first mortgage.

CIM Urban operates in three market segments: office properties; hotel; and multifamily. Set forth and described below are summary segment results for CIM Urban's three market segments for the specified periods.

**Summary Segment Results***(in Thousands)*

	Three Months Ended June 30,		Change	
	2013	2012	\$	%
<b>Revenues:</b>				
Office properties	\$ 44,135	\$ 42,533	\$ 1,602	3.8%
Hotel	10,623	11,013	(390)	(3.5%)
Multifamily	5,079	4,688	391	8.3%
<b>Total revenues</b>	<b>59,837</b>	<b>58,234</b>	<b>1,603</b>	<b>2.8%</b>
<b>Expenses:</b>				
Office properties	16,447	16,058	389	2.4%
Hotel	7,209	6,700	509	7.6%
Multifamily	1,949	2,044	(95)	(4.6%)
<b>Total expenses</b>	<b>25,605</b>	<b>24,802</b>	<b>803</b>	<b>3.2%</b>
<b>Segment net operating income</b>	<b>\$ 34,232</b>	<b>\$ 33,432</b>	<b>\$ 800</b>	<b>2.4%</b>

**Revenues**

**Office Properties:** Revenues include rental revenues from CIM Urban's office properties, expense reimbursements and lease termination income. Total office property revenues increased to \$44,135,000, or 3.8%, for the three months ended June 30, 2013 compared to \$42,533,000 for the comparable period in 2012. The increase primarily reflects an increase in rental revenue from CIM Urban's properties in the District of Columbia of approximately \$900,000 due to increased occupancy, combined with increased lease termination fees of approximately \$780,000.

**Hotel Revenue:** Total hotel revenue decreased to \$10,623,000, or 3.5%, for the 2013 second quarter compared to \$11,013,000 for the 2012 second quarter. The decrease is due to a reduction in interest income related to a note receivable from a hotel property, which is included in Hotel segment revenue. The borrower of the LAX Holiday Inn first mortgage is currently in default, and CIM Urban has initiated foreclosure procedures which may lead to CIM Urban taking possession of the property. The decrease in interest income of approximately \$1.1 million was partially offset by increased revenue of approximately \$700,000 from CIM Urban's two other hotel properties, each of which achieved increases in RevPAR in the second quarter of 2013 compared to the 2012 period.

**Multifamily Revenue:** Total multifamily revenue increased to \$5,079,000, or 8.3%, for the 2013 second quarter compared to \$4,688,000 for the 2012 second quarter. The increase is primarily due to increased revenue from two of CIM Urban's multifamily properties in Texas, which achieved increased rental rates compared to the same period in 2012. Multifamily revenue also benefited from a retail lease at CIM Urban's multifamily property in New York that was not in place in the 2012 second quarter.

---

**Table of Contents**
***Expenses***

***Office Properties:*** Total expenses increased to \$16,447,000, or 2.4%, for the second quarter of 2013 compared to \$16,058,000 in the second quarter of 2012. The increase is primarily due to increased real estate taxes at CIM Urban s District of Columbia properties compared to the second quarter of 2012.

***Hotel Expenses:*** Total hotel expenses increased to \$7,209,000, or 7.6%, for the second quarter of 2013 compared to \$6,700,000 for the second quarter of 2012. The increase reflects higher operating costs associated with improved revenues at CIM Urban s two owned hotel properties in the period, which achieved higher combined occupancy and RevPAR compared to the 2012 period.

***Multifamily Expenses:*** Total multifamily expenses decreased to \$1,949,000, or 4.6%, for the second quarter of 2013 compared to \$2,044,000 for the second quarter of 2012. Expenses in the 2012 period reflect a non-recurring expense of approximately \$225,000 to the former property manager of certain of CIM Urban s owned properties, the impact of which is partially offset by higher real estate tax expense in the 2013 second quarter.

***Interest Expense:*** Interest expense of \$4,724,000 in the second quarter of 2013 represents a \$42,000 increase from \$4,682,000 in the second quarter of 2012. The increase reflects incremental line of credit borrowings in the 2013 second quarter, which was partially offset by lower interest expense from amortizing fixed-rate mortgages.

***General and Administrative:*** General and administrative expenses that have not been allocated to segments increased to \$341,000 for the second quarter of 2013 compared to \$175,000 in the comparable 2012 period. The increase is primarily due to increased accounting, tax and annual meeting costs compared to the 2012 second quarter.

***Acquisition-Related Costs:*** Acquisition-related costs totaling \$1,394,000 are associated with the proposed merger with PMC Commercial and are primarily comprised of due diligence costs, reimbursement of PMC Commercial s acquisition-related costs, and legal and accounting expenses.

***Asset Management Fees to Related Party:*** Asset management fees totaled \$5,431,000 for the second quarter of 2013 compared to \$5,196,000 for the second quarter of 2012. Management fees are calculated based on a percentage of the gross fair value of CIM Urban s investments, which are appraised in the fourth quarter of each year. The higher fees reflect a net increase in the fair value of the real estate investments based on the December 31, 2012 appraised values, as well as incremental capital expenditures in the first half of 2013.

***Depreciation and Amortization:*** Depreciation and amortization expense decreased to \$17,534,000, or 0.8%, in the second quarter of 2013, compared to \$17,669,000 in the second quarter of 2012. Decreased amortization of in place lease values was partially offset by an increase in depreciation expense associated with additional capital expenditures compared to the second quarter of 2012.

***Comparison of Six Months Ended June 30, 2013 to the Six Months Ended June 30, 2012***

Net income attributable to partners decreased to \$10,521,000, or 12.7%, for the six months ended June 30, 2013 compared to \$12,056,000 for the six months ended June 30, 2012. The decrease was primarily attributable to \$1,394,000 of transaction-related costs in the 2013 period related to the proposed merger with PMC Commercial. In addition, CIM Urban experienced improved results from its office and multifamily portfolios, which were partially offset by lower operating income generated from CIM Urban s hotel segment, primarily due to reduced income from the LAX Holiday Inn first mortgage.

CIM Urban operates in three market segments: office properties; hotel; and multifamily. Set forth and described below are summary segment results for CIM Urban s three market segments for the specified periods.

**Table of Contents****Summary Segment Results***(in Thousands)*

	Six Months Ended		Change	
	2013	June 30, 2012	\$	%
<b>Revenues:</b>				
Office properties	\$ 87,597	\$ 85,302	\$ 2,295	2.7%
Hotel	20,571	22,027	(1,456)	(6.6%)
Multifamily	9,978	9,310	668	7.2%
Total revenues	118,146	116,639	1,507	1.3%
<b>Expenses:</b>				
Office properties	32,848	32,246	602	1.9%
Hotel	13,815	13,448	367	2.7%
Multifamily	3,848	3,826	22	0.6%
Total expenses	50,511	49,520	991	2.0%
Segment net operating income	\$ 67,635	\$ 67,119	\$ 516	0.8%

**Revenues**

**Office Properties:** Total office property revenues increased to \$87,597,000, or 2.7%, for the six months ended June 30, 2013 compared to \$85,302,000 for the six months ended June 30, 2012. The increase during the first six months of 2013 primarily reflects an increase in rental revenue of approximately \$1.4 million from CIM Urban s properties in the District of Columbia combined with an increase in lease termination fees of approximately \$780,000 compared to the 2012 six month period.

**Hotel Revenue:** Total hotel revenue decreased to \$20,571,000, or 6.6%, for the first six months of 2013 compared to \$22,027,000 for the first six months of 2012. The decrease is primarily due to lower interest income on a note receivable from the LAX Holiday Inn of approximately \$1,850,000. The borrower of the first mortgage is currently in default. This decrease was partially offset by increased revenue from CIM Urban s two owned hotel properties.

**Multifamily Revenue:** Total multifamily revenue increased to \$9,978,000, or 7.2%, in the first half of 2013 compared to \$9,310,000 for the first half of 2012. The increase is primarily due to increased revenue from two of CIM Urban s multifamily properties in Texas, which achieved increased rental rates compared to the 2012 period. Revenue also benefited from a new retail lease at CIM Urban s multifamily property in New York.

**Expenses**

**Office Properties:** Total expenses increased to \$32,848,000, or 1.9%, for the six months ended June 30, 2013 compared to \$32,246,000 for the six months ended June 30, 2012. The increase is primarily due to increased real estate taxes at CIM Urban s District of Columbia properties.

**Hotel Expenses:** Total hotel expenses increased to \$13,815,000, or 2.7%, for the first six months of 2013 compared to \$13,448,000 for the first six months of 2012. The increase reflects revenue increases achieved at CIM Urban s two owned hotel properties, which achieved higher combined occupancy and RevPAR.

**Multifamily Expenses:** Total multifamily expenses increased to \$3,848,000, or 0.6%, for the first six months of 2013 compared to \$3,826,000 for the first six months of 2012. Expenses in the 2012 period reflect a non-recurring expense to the former manager of certain CIM Urban s owned properties.

**Interest Expense:** Interest expense totaled \$9,402,000 in the first six months of 2013, compared to \$9,432,000 in the first six months of 2012. The reduction in interest expense in the 2013 period reflects lower





**Table of Contents**

interest expense due to principal amortization of fixed-rate mortgages, partially offset by increased interest expense due to incremental revolving line of credit borrowings.

**General and Administrative:** General and administrative expenses that have not been allocated to segments increased to \$699,000 in the first half of 2013 compared to \$483,000 in the first half of 2012. The increase reflects increased audit, tax and annual meeting costs compared to the first six months of 2012.

**Acquisition-Related Costs:** Acquisition-related costs totaled \$1,394,000, relating to the proposed merger with PMC Commercial and are primarily comprised of due diligence costs, reimbursement of PMC Commercial acquisition-related costs, and legal and accounting expenses.

**Asset Management Fees to Related Party:** Asset management fees totaled \$10,840,000 for the first six months of 2013 compared to \$10,451,000 for the first six months of 2012. Management fees are calculated based on a percentage of the gross fair value of CIM Urban s investments, which are appraised in the fourth quarter of each year. The higher fees reflect a net increase in the fair value of the real estate investments based on the December 31, 2012 appraised values, as well as incremental capital expenditures in the first six months of 2013.

**Depreciation and Amortization:** Depreciation and amortization expense increased to \$34,670,000 in the first six months of 2013, compared to \$34,591,000 in the first six months of 2012. The increase in depreciation expense resulting from additional capital expenditures was offset by decreased amortization of certain in place lease values.

**Comparison of Year Ended December 31, 2012 to Year Ended December 31, 2011**

Net income attributable to partners increased to \$19,589,000 for the year ended December 31, 2012 compared to \$6,122,000 for the year ended December 31, 2011. The increase was primarily attributable to improved operations, particularly in CIM Urban s office segment, as well as additional net income from a multifamily property acquired in 2011.

CIM Urban operates in three market segments: office properties; hotel; and multifamily. Set forth and described below are summary segment results for CIM Urban s three market segments for the specified periods.

**Summary Segment Results**

(in Thousands)

	Years Ended December 31,		Change	
	2012	2011	\$	%
<b>Revenues:</b>				
Office properties	\$ 172,583	\$ 158,321	\$ 14,262	9.0%
Hotel	41,086	39,505	1,581	4.0%
Multifamily	18,844	15,467	3,377	21.8%
Total revenues	232,513	213,293	19,220	9.0%
<b>Expenses:</b>				
Office properties	67,352	64,647	2,705	4.2%
Hotel	26,135	25,253	882	3.5%
Multifamily	7,751	6,230	1,521	24.4%
Total expenses	101,238	96,130	5,108	5.3%
<b>Segment net operating income</b>	<b>\$ 131,275</b>	<b>\$ 117,163</b>	<b>\$ 14,112</b>	<b>12.0%</b>

---

**Table of Contents**

***Revenues***

***Office Properties:*** Total office properties revenues increased to \$172,583,000, or 9.0%, in 2012 compared to \$158,321,000 in 2011. The increase primarily reflects an increase in occupancy and an increase in rental rates associated with new and renewed leases at CIM Urban s properties in the District of Columbia and in Oakland, California.

***Hotel Revenue:*** Total hotel revenue increased to \$41,086,000, or 4.0%, in 2012 compared to \$39,505,000 in 2011. The increase is primarily due to increases in RevPAR at both of CIM Urban s owned hotel properties in 2012 compared to 2011, partially offset by lower revenue associated with the LAX Holiday Inn note receivable in 2012 due to lower discount amortization.

***Multifamily Revenue:*** Total multifamily revenue increased to \$18,844,000, or 21.8%, in 2012 compared to \$15,467,000 in 2011. The increase is primarily due to additional revenue from a property acquired in 2011.

***Expenses***

***Office Properties:*** Total expenses increased to \$67,352,000, or 4.2%, in 2012 compared to \$64,647,000 in 2011. The increase is primarily due to an increase in real estate taxes at certain properties within CIM Urban s District of Columbia office portfolio.

***Hotel Expenses:*** Total hotel expenses increased to \$26,135,000, or 3.5%, in 2012 compared to \$25,253,000 in 2011. The increase is primarily due to increased variable costs associated with increased occupancy.

***Multifamily Expenses:*** Total multifamily expenses increased to \$7,751,000, or 24.4%, in 2012 compared to \$6,230,000 in 2011. The increase was primarily due to additional expenses from a property acquired in 2011 and increased real estate taxes due to a reassessment of certain properties acquired in 2010.

***Interest Expense:*** Interest expense increased to \$18,856,000, or 4.0%, in 2012 compared to \$18,128,000 in 2011. The increase was primarily due to the incremental expense associated with borrowings under the line of credit, as well as a full year of interest expense on mortgages on five properties financed or refinanced in 2011.

***General and Administrative:*** General and administrative expenses that have not been allocated to segments increased to \$1,122,000 in 2012, compared to \$1,022,000 in 2011. The increase is primarily related to higher accounting and consulting fees in 2012.

***Asset Management Fees to Related Party:*** Asset management fees increased to \$20,924,000, or 8.3%, in 2012 compared to \$19,326,000 in 2011. Management fees are calculated based on a percentage of the gross fair value of CIM Urban s investments. The increase is primarily due to an increase in the fair value of CIM Urban s investments as determined by third-party appraisals.

***Acquisition-Related Costs:*** Acquisition-related costs totaled \$632,000 in 2012 compared to \$3,574,000 in 2011. The decrease is primarily due to higher expenses in 2011 associated with the acquisition of a multifamily property.

***Depreciation and Amortization:*** Depreciation and amortization expense increased to \$69,943,000, or 1.7%, in 2012, compared to \$68,804,000 in 2011. The increase is primarily due to a full year of depreciation associated with a property acquired in 2011 and incremental capital expenditures during 2012.

***Comparison of Year Ended December 31, 2011 to Year Ended December 31, 2010***

Net income attributable to partners decreased to \$6,122,000 for the year ended December 31, 2011 compared to \$13,528,000 for the year ended December 31, 2010. Excluding income from discontinued operations in the 2010 period, which reflects the sale of a hotel property, net income from continuing operations

**Table of Contents**

increased to \$6,309,000, or 13.8%, for the year ended December 31, 2011 compared to \$5,545,000 for the year ended December 31, 2010. Results in 2011 benefitted from increased income as a result of property acquisitions in 2011 and 2010, which was partially offset by reduced income from certain properties that experienced significant tenant loss.

CIM Urban operates in three market segments: office properties; hotel; and multifamily. Set forth and described below are summary segment results for CIM Urban's three market segments for the specified periods.

**Summary Segment Results**

(in Thousands)

	Years Ended December 31,		Change	
	2011	2010	\$	%
<b>Revenues:</b>				
Office properties	\$ 158,321	\$ 162,641	\$ (4,320)	(2.7%)
Hotel	39,505	37,725	1,780	4.7%
Multifamily	15,467	10,296	5,171	50.2%
<b>Total revenues</b>	<b>213,293</b>	<b>210,662</b>	<b>2,631</b>	<b>1.2%</b>
<b>Expenses:</b>				
Office properties	64,647	66,954	(2,307)	(3.4%)
Hotel	25,253	23,776	1,477	6.2%
Multifamily	6,230	5,146	1,084	21.1%
<b>Total expenses</b>	<b>96,130</b>	<b>95,876</b>	<b>254</b>	<b>0.3%</b>
<b>Segment net operating income</b>	<b>\$ 117,163</b>	<b>\$ 114,786</b>	<b>\$ 2,377</b>	<b>2.1%</b>

**Revenues**

**Office Properties:** Total office properties revenues decreased to \$158,321,000, or 2.7%, in 2011 compared to \$162,641,000 in 2010. The decrease primarily reflects a decrease in occupancy at two office properties in Washington, D.C., partially offset by a full year of revenues from properties acquired in 2010.

**Hotel Revenue:** Total hotel revenue increased to \$39,505,000, or 4.7%, in 2011 compared to \$37,725,000 in 2010. The increase is primarily due to RevPAR growth at both of CIM Urban's owned hotel properties in 2011 compared to 2010.

**Multifamily Revenue:** Total multifamily revenue increased to \$15,467,000, or 50.2%, in 2011 compared to \$10,296,000 in 2010. The increase is primarily due to a full year of revenues from properties acquired in 2010 and additional revenue from a property acquired in 2011.

**Expenses**

**Office Properties:** Total expenses decreased to \$64,647,000, or 3.4%, in 2011 compared to \$66,954,000 in 2010. The decrease primarily reflects a decrease in occupancy at three office properties resulting in lower utility costs, which were partially offset by a full year of expenses from properties acquired in 2010. In addition, expenses in 2011 reflect property tax refunds received for two of CIM Urban's District of Columbia properties.

**Hotel Expenses:** Total hotel expenses increased to \$25,253,000, or 6.2%, in 2011 compared to \$23,776,000 in 2010. The increase is primarily due to increased variable costs associated with higher occupancy.

**Multifamily Expenses:** Total multifamily expenses increased to \$6,230,000, or 21.1%, in 2011 compared to \$5,146,000 in 2010. The increase is primarily due to additional expenses from properties acquired in 2010 and 2011.



---

## **Table of Contents**

**Interest Expense:** Interest expense increased to \$18,128,000, or 6.3%, in 2011 compared to \$17,058,000 in 2010. The increase is primarily due to interest expense at five properties financed or refinanced in 2011 and a full year of interest expense from mortgages on two properties acquired in 2010. The increases were partially offset by reduced interest expenses due to loans that were repaid during 2010.

**General and Administrative:** General and administrative expenses that have not been allocated to segments increased to \$1,022,000 in 2011 compared to \$759,000 in 2010. The increase is primarily due to increased accounting, tax, and legal costs in 2011.

**Asset Management Fees to Related Party:** Asset management fees increased to \$19,326,000, or 9.5%, in 2011 compared to \$17,657,000 in 2010. Management fees are calculated based on a percentage of the gross fair value of CIM Urban's investments. The increase in 2011 is primarily due to an increase in the fair value of CIM Urban's investments as determined by the use of third-party appraisals.

**Acquisition-Related Costs:** Acquisition-related costs increased to \$3,574,000 in 2011 compared to \$2,562,000 in 2010. The increase is primarily due to higher expenses in the 2011 period associated with the acquisition of a multifamily property.

**Depreciation and Amortization:** Depreciation and amortization expense decreased to \$68,804,000, or 3.4%, in 2011, compared to \$71,204,000 in 2010. The decrease is primarily due to certain acquisition-related intangible assets that became fully amortized in 2011, partially offset by additional depreciation associated with incremental capital expenditures and acquisitions in 2010 and 2011.

### ***Discontinued Operations***

Net income from discontinued operations of \$8,120,000 in 2010 includes the operations and gain on sale of a hotel property sold in 2010.

## **Liquidity and Capital Resources**

### ***Credit Facility***

In February 2012, CIM Urban obtained an unsecured revolving credit facility allowing for maximum borrowings of \$100.0 million. Borrowings under the facility are limited by certain borrowing base calculations. Outstanding advances under the facility bear interest at a base rate, as defined, plus 0.75% to 1.50% or LIBOR plus 1.75% to 2.50%, depending on the maximum consolidated leverage ratio, as defined. The facility matures in February 2016, with a one-year extension option under certain circumstances. As of June 30, 2013, \$56.0 million was outstanding under the facility. CIM Urban has recently amended its facility to (i) change the interest rate to the base rate, as defined, plus 0.25% to 0.85% or LIBOR plus 1.25% to 1.85% and (ii) modify the borrowing base. As of June 30, 2013, CIM Urban was in compliance with all of its financial covenants under the credit facility.

In addition, CIM Urban has recently added a \$125 million unsecured term loan with the same bank syndicate. Borrowings under the unsecured term loan will be limited by certain borrowing base calculations. Outstanding advances under the unsecured term loan bear interest at the base rate, as defined, plus 0.25% to 0.85% or LIBOR plus 1.25% to 1.85%, depending on the maximum consolidated leverage ratio, as defined. The unsecured term loan matures six months from the closing date, as defined, subject to two three-month extension options which are subject to certain conditions.

CIM Urban's liquidity needs for the next twelve months include refinancing senior mortgages payable of approximately \$76 million which mature in September through December 2013, the Special Dividend of approximately \$58.3 million, capital expenditures and distributions. CIM Urban expects to meet its liquidity requirements for the next twelve months through cash on hand, cash provided by operations and borrowings both under its existing facility and under the new unsecured term loan, as described above.

**Table of Contents**

In order to fund future acquisitions and to pay debts and other obligations as they become due, CIM Urban anticipates expansion of its current revolving credit facility, other term loans or longer-term debt issuances. The completion and the costs of future debt transactions will depend primarily upon market conditions. It is CIM Urban's intention to conduct business activities in a manner which will allow reasonable access to capital for future investment activities. However, there can be no assurance that CIM Urban will be able to issue new debt or refinance existing debt on reasonable terms.

CIM Urban's long-term liquidity needs consist primarily of funds necessary to pay for development or repositioning of properties, non-recurring capital expenditures and refinancing of indebtedness. CIM Urban does not expect that it will have sufficient funds on hand to cover all of these long-term cash requirements. The nature of CIM Urban's business, and the requirements imposed by REIT rules that it distribute a substantial majority of its income on an annual basis in the form of dividends, may cause CIM Urban to have substantial liquidity needs over the long term. CIM Urban will seek to satisfy its long-term liquidity needs through cash flows from operations, long-term secured indebtedness and property dispositions.

**Available Borrowings, Cash Balances and Capital Resources**

CIM Urban has typically financed its capital needs through investor equity commitments, long-term secured mortgages and a short-term line of credit. As of December 2009, all of CIM Urban's investors' capital commitments were funded. As of June 30, 2013 and December 31, 2012, CIM Urban had total indebtedness of \$367.0 million and \$345.6 million, respectively. Included in total indebtedness is \$56 million and \$30 million of borrowings under a line of credit with total capacity of \$100 million at June 30, 2013 and December 31, 2012, respectively.

**Commitments**

The following table sets forth CIM Urban's principal obligations and commitments, including periodic interest payments, as of December 31, 2012:

**Payments due by Period**

(in Thousands)

	<b>Total</b>	<b>2013</b>	<b>2014-2015</b>	<b>2016-2017</b>	<b>Thereafter</b>
Debt Obligations(1)	\$ 430,368	\$ 101,154	\$ 108,779	\$ 53,988	\$ 166,447
Minimum Lease Payments	131,890	437	913	1,006	129,534

(1) Excludes premiums and discounts and includes interest of \$17,456 (2013), \$25,251 (2014-2015), \$14,993 (2016-2017) and \$30,651 (thereafter) calculated based on the current effective interest rate on the related debt.

The following table sets forth CIM Urban's principal obligations and commitments, including periodic interest payments, as of June 30, 2013:

**Payments due by Period**

(in Thousands)

	<b>Total</b>	<b>2013</b>	<b>2014-2015</b>	<b>2016-2017</b>	<b>Thereafter</b>
Debt Obligations(1)	\$ 444,128	\$ 87,850	\$ 109,793	\$ 80,038	\$ 166,447
Minimum Lease Payments	131,671	218	913	1,006	129,534

(1) Excludes premiums and discounts and includes interest of \$8,416 (2013), \$26,265 (2014-2015), \$15,042 (2016-2017) and \$30,651 (thereafter) calculated based on the current effective interest rate on the related debt.





---

**Table of Contents**

***Cash Flows***

*Six Months Ended June 30, 2013 compared to June 30, 2012*

CIM Urban's cash and cash equivalents totaled \$33.4 million and \$31.5 million at June 30, 2013 and December 31, 2012, respectively. CIM Urban's cash flows from operating activities are primarily dependent upon the occupancy level of CIM Urban's real estate assets, the rental rates achieved through CIM Urban's leases, the collectability of rent and recoveries from CIM Urban's tenants. CIM Urban's cash flows from operating activities are also impacted by fluctuations in operating expenses and other general and administrative costs. Net cash provided by operating activities increased to \$32.2 million for the first half of 2013 from \$30.4 million for the first half of 2012. The increase was primarily due to higher cash revenues in the first six months of 2013, partially offset by greater uses of working capital in 2013 compared to the 2012 period.

CIM Urban's net cash used in investing activities is generally used to fund property acquisitions, development and redevelopment projects and capital expenditures. Net cash used in investing activities decreased to \$11.0 million in the first half of 2013 from \$16.7 million in the first half of 2012. The decrease reflects higher levels of both acquisition and capital expenditure spending in the 2012 period.

CIM Urban's net cash related to financing activities is generally impacted by its borrowings and capital activities, net of dividends and distributions paid to partners and non-controlling interests. Net cash used in financing activities decreased to \$19.4 million in the first half of 2013, from \$24.2 million in the first half of 2012. The decrease was primarily due to higher net proceeds from unsecured line of credit borrowings, which was partially offset by increased partner distributions during 2013.

*Year Ended December 31, 2012 compared to December 31, 2011*

CIM Urban's cash and cash equivalents totaled \$31.5 million and \$46.2 million at December 31, 2012 and 2011, respectively. CIM Urban's cash flows from operating activities are primarily dependent upon the occupancy level of its real estate assets, the rental rates achieved through its leases, the collectability of rent and recoveries from its tenants. CIM Urban's cash flows from operating activities are also impacted by fluctuations in operating expenses and other general and administrative costs. Net cash provided by operating activities increased to \$66.7 million in 2012 from \$46.2 million in 2011. The increase was primarily due to improved operating results across its office, multifamily and hotel properties, as well as a full year of operations from a property acquired in 2011.

CIM Urban's net cash used in investing activities is generally used to fund property acquisitions, development and redevelopment projects and capital expenditures. Net cash used in investing activities decreased to \$29.0 million for 2012 from \$100.6 million in 2011. The decrease reflects higher levels of both acquisition and capital expenditure spending in 2011 compared to 2012.

CIM Urban's net cash related to financing activities is generally impacted by its borrowings and capital activities, net of dividends and distributions paid to partners and non-controlling interests. Net cash used in financing activities increased to \$52.4 million for 2012, from \$5.7 million in 2011. The increase was primarily due to higher net proceeds from mortgages payable in 2011, which reduced net cash used in financing activities. The higher net proceeds from mortgages payable in 2011 reflects new mortgage debt on five properties financed or refinanced in 2011. In addition, 2012 partner distributions increased from 2011.

**Critical Accounting Policies**

CIM Urban's discussion and analysis of the historical financial condition and results of operations of CIM Urban is based upon its consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements in conformity with GAAP requires CIM Urban to make estimates of certain items and judgments as to certain future events, for

---

**Table of Contents**

example with respect to the allocation of the purchase price of acquired property among land, buildings, improvements, equipment, and any related intangible assets and liabilities. These determinations, even though inherently subjective and subject to change, affect the reported amounts of CIM Urban's assets, liabilities, revenues and expenses. While CIM Urban believes that its estimates are based on reasonable assumptions and judgments at the time they are made, some of CIM Urban's assumptions, estimates and judgments will inevitably prove to be incorrect. As a result, actual outcomes will likely differ from CIM Urban's accruals, and those differences—positive or negative—could be material. Some of CIM Urban's accruals are subject to adjustment as CIM Urban believes appropriate based on revised estimates and reconciliation to the actual results when available. For a discussion of recently issued accounting literature, see Note 2 to CIM Urban's consolidated financial statements.

In addition, CIM Urban identified certain critical accounting policies that affect certain of its more significant estimates and assumptions used in preparing CIM Urban's consolidated financial statements in Management's Discussion and Analysis in connection with CIM Urban's December 31, 2012 financial statements. CIM Urban has not made any material changes to these policies during the period covered by this proxy statement/prospectus. Management of CIM Urban believes that the following critical accounting considerations and significant accounting policies represent CIM Urban's more significant judgments and estimates used in the preparation of CIM Urban's consolidated financial statements.

***Investment in Real Estate***

CIM Urban applies the acquisition method to all acquired real estate investments. The purchase consideration of the real estate is recorded at fair value to the acquired tangible assets, consisting primarily of land, site improvements, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases, value of tenant relationships, and acquired ground leases, based in each case on their fair values. Loan premiums, in the case of above-market rate loans, or loan discounts, in the case of below-market loans, are recorded based on the fair value of any loans assumed in connection with acquiring the real estate.

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 (or acquired ground lease if the land is subject to a ground lease), site improvements, and building and tenant improvements based on management's determination of the relative fair values of these assets. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering 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, legal, and other related costs.

In allocating the purchase consideration of the identified intangible assets and liabilities of an acquired property, above-market, below-market, and in-place lease values are recorded based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases measured over a period equal to the remaining noncancelable term of the lease and, for below-market leases, over a period equal to the initial term plus any below-market, fixed-rate renewal periods. Acquired above-market and below-market leases are amortized and recorded to rental income over the initial terms of the prospective leases.

The aggregate value of other acquired intangible assets, consisting of in-place leases and tenant relationships, is measured by the estimated cost of operations during a theoretical lease-up period to replace

**Table of Contents**

in-place leases, including lost revenues and any unreimbursed operating expenses, plus an estimate of deferred leasing commissions for in-place leases. The value of in-place leases is amortized to expense over the remaining noncancelable periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written-off.

For hotels, intangible value is assigned to expected revenues from advance bookings, which were calculated based on discounted income, and to franchise affiliation, which were calculated based on the difference between the net projected income in the year of acquisition and an estimate of income without the franchise. Advance bookings are amortized over one to three years, and franchise fee affiliation is amortized over the shorter of 10 years or when the hotel is no longer affiliated with the franchise.

A tax abatement intangible asset was recorded for a property acquired, based on an approval for a property tax abatement, due to the location of the property. The tax abatement intangible asset is amortized over its eight year life.

Initial valuations are subject to change until such information is finalized no later than 12 months from the acquisition date. Each of these estimates requires a great deal of judgment, and some of the estimates involve complex calculations. These allocation assessments have a direct impact on CIM Urban's results of operations because if CIM Urban were to allocate more value to land there would be no depreciation with respect to such amount. If CIM Urban were to allocate more value to the buildings as opposed to allocating to the value of tenant leases, this amount would be recognized as an expense over a much longer period of time, since the amounts allocated to buildings are depreciated over the estimated lives of the buildings whereas amounts allocated to tenant leases are amortized over the remaining terms of the leases.

Real estate acquisitions are recorded at cost as of the date of closing. Costs related to the acquisition of properties are expensed as incurred. Investments in real estate are stated at depreciated cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives as follows:

Buildings and improvements	15-40 years
Furniture, fixtures, and equipment	3-5 years
Tenant improvements	Shorter of the useful lives or the terms of the related leases

Improvements and replacements are capitalized when they extend the useful life, increase capacity, or improve the efficiency of the asset. Ordinary repairs and maintenance are expensed as incurred.

***Consolidation Considerations for CIM Urban's Investments in Real Estate***

ASC 810-10, Consolidation, addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights that would require the entity to be consolidated. CIM Urban analyzes its investments in real estate in accordance with this accounting standard to determine whether they are variable interest entities, and if so, whether CIM Urban is the primary beneficiary. CIM Urban's judgment with respect to its level of influence or control over an entity and whether CIM Urban is the primary beneficiary of a variable interest entity involves consideration of various factors, including the form of CIM Urban's ownership interest, CIM Urban's voting interest, the size of CIM Urban's investment (including loans), and CIM Urban's ability to participate in major policy making decisions. CIM Urban's ability to correctly assess its influence or control over an entity affects the presentation of these investments in its consolidated financial statements.

***Impairment of Long-Lived Assets***

Investments in real estate are evaluated for impairment on an annual basis, or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be

## **Table of Contents**

held and used is measured by a comparison of the carrying amount to the future net cash flows, undiscounted and without interest, 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 estimated fair value of the assets. The estimated fair value of the asset group identified for step two testing is based on either the income approach with market discount rate, terminal capitalization rate and rental rate assumptions being most critical, or on the sales comparison approach to similar properties. These impairment losses have a direct impact on CIM Urban's net income because recording an impairment loss results in an immediate negative adjustment to net income. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If CIM Urban's strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material.

### ***Revenue Recognition***

All leases are classified as operating leases, and minimum rents are recognized on a straight-line basis over the terms of the leases. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is recorded as deferred rent.

Reimbursements from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes, insurance, and other recoverable costs, are recognized as revenue in the period the expenses are incurred. Tenant reimbursements are recognized and presented on a gross basis, when CIM Urban is the primary obligor with respect to incurring expenses and with respect to having the credit risk.

In addition to minimum rents, certain leases provide for additional rents based upon varying percentages of tenants' sales in excess of annual minimums. Percentage rent is recognized once lessees' specified sales targets have been met. Hotel room sales are recognized upon daily occupancy. Other hotel revenues are recognized as earned upon facility use or food and beverage consumption.

### ***Accounts Receivable***

Accounts receivable are carried net of the allowances for uncollectible amounts. Management's determination of the adequacy of these allowances is based primarily upon evaluation of historical loss experience, individual receivables, current economic conditions, and other relevant factors. The allowances are increased or decreased through the provision for bad debts. If CIM Urban's estimates of collectability differ from the cash received, the timing and amount of its reported revenue could be impacted.

### ***Income Taxes***

Under applicable federal and state income tax rules, CIM Urban is generally not subject to income taxes. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. Income or loss is included in the income tax returns of the partners. CIM Urban files income tax returns in the United States federal and certain state jurisdictions.

### **Quantitative and Qualitative Disclosures about Market Risk**

The fair value of CIM Urban's mortgages payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis is generally used to estimate the fair value of CIM Urban's mortgages payable, using rates ranging from 4.54% to 5.15% for the period ended June 30, 2013 and 4.54% to 5.15% for the year ended December 31, 2012. Mortgages payable with book values of \$310,963,804 and \$315,631,338 as of June 30, 2013 and December 31, 2012, respectively, have a fair value of approximately \$311,982,000 and \$317,338,000, respectively.

**Table of Contents**

CIM Urban's future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. CIM Urban is exposed to market risk in the form of changes in interest rates and the potential impact such changes may have on the cash flows from its floating rate debt or the fair values of its fixed rate debt. Given the long term nature of its real estate investments, CIM Urban generally finances its properties with long term, fixed rate mortgage loans. At June 30, 2013 and December 31, 2012 (excluding premiums and discounts on assumed mortgages), \$307.8 million (or 84.6%) and \$312.0 million (or 91.2%) of CIM Urban's debt was fixed rate mortgage loans and \$56 million (or 15.4%) and \$30 million (or 8.8%) was floating rate line of credit borrowings. Based on the level of floating rate debt outstanding at June 30, 2013 and December 31, 2012, a 12.5 basis point change in LIBOR would result in an annual impact to CIM Urban's earnings of approximately \$70,000 and \$38,000, respectively. CIM Urban calculates interest rate sensitivity by multiplying the amount of floating rate debt by the respective change in rate. The sensitivity analysis does not take into consideration possible changes in the balances or fair value of CIM Urban's floating rate debt.

**Table of Contents****MANAGEMENT OF PMC COMMERCIAL AFTER THE MERGER****Management and Board of Trust Managers**

The following is a list of the persons who are anticipated to be PMC Commercial's executive officers and Trust Managers following the Merger and their ages and anticipated positions following the Merger, except that it is anticipated that three independent Trust Managers will subsequently be identified and added to this listing.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Jan F. Salit	63	President and Secretary
David Thompson	49	Chief Financial Officer and Principal Accounting Officer
Richard Ressler	55	Trust Manager and Chairman of the Board
Avraham Shemesh	51	Trust Manager
Shaul Kuba	50	Trust Manager
Kelly Eppich	56	Trust Manager

Jan F. Salit has been Chief Executive Officer, Chairman of the Board and Secretary of PMC Commercial since October 2012 and Treasurer since October 2008, and will be the President and Secretary of PMC Commercial following the Merger. Mr. Salit was Chief Operating Officer of PMC Commercial from October 2008 to October 2012, Executive Vice President of the PMC Commercial from June 1993 to October 2012, and Chief Investment Officer and Assistant Secretary from January 1994 to October 2012. He was also Executive Vice President of PMC Capital from May 1993 to February 2004 and Chief Investment Officer and Assistant Secretary of PMC Capital from March 1994 to February 2004. From 1979 to 1992, Mr. Salit was employed by Glenfed Financial Corporation and its predecessor company Armco Financial Corporation, a commercial finance company, holding various positions including Executive Vice President and Chief Financial Officer. Mr. Salit received his BA from Michigan State University and his MBA from New York University. Mr. Salit's experience as President and Chief Executive Officer of PMC Commercial has given him in-depth knowledge of PMC Commercial's operations and significant experience in financial and executive management, strategic planning, business integration and in dealing with the many regulatory aspects of PMC Commercial's business.

David Thompson will be the Chief Financial Officer and Principal Accounting Officer of PMC Commercial following the Merger. Mr. Thompson is a Principal, Chief Financial Officer of CIM Group. He joined CIM Group in 2009. Prior to joining CIM Group in 2009, Mr. Thompson spent fifteen years with Hilton Hotels Corporation, most recently as Senior Vice President and Controller, where he was responsible for worldwide financial reporting, financial planning and analysis, internal control and technical accounting compliance. Mr. Thompson's experience includes billions of dollars of real estate acquisitions and dispositions in the hospitality sector, as well as significant capital markets experience. He began his career as a C.P.A. in the Los Angeles office of Arthur Andersen & Co.

Richard Ressler is the founder and President of Orchard Capital Corporation (Orchard Capital), a firm that provides consulting and advisory services to companies (including CIM Group) in which Orchard Capital or its affiliates invest. He has been President of Orchard Capital since 1994. Through his affiliation with Orchard Capital, Mr. Ressler serves in various senior capacities with, among others, CIM Group and Orchard First Source Asset Management (together with its affiliates, OFSAM), an investment adviser focusing on middle market debt investments. Both OFSAM and its wholly-owned subsidiary, OFS Capital Management, LLC, are registered with the SEC as registered investment advisers. Mr. Ressler serves as a board member for various public and private companies in which Orchard Capital or its affiliates invest, including j2 Global, Inc. (NASDAQ: JCOM) for which he has been Chairman of the Board of Directors and a director of j2 Global since 1997, and also served as j2 Global's Chief Executive Officer from 1997 to 2000 (in each of these capacities pursuant to a consulting agreement between j2 Global and Orchard Capital). Mr. Ressler has in-depth knowledge of CIM Urban's business and operations and has extensive experience with, and knowledge of, business management and finance as a result of his experience with CIM Group, including as Co-Founder thereof.

## **Table of Contents**

Avi Shemesh, Co-Founder and a Principal of CIM Group, has been an active real estate investor for over 23 years. Since co-founding CIM Group in 1994, Mr. Shemesh has been instrumental in building the firm's real estate and infrastructure platforms. As a Principal and head of the firm's Investments Group, he is actively involved in the investment process and provides guidance on the diverse investment ideas across CIM Group's platforms. He serves on the firm's Investment and Asset Management Committees. Additionally, Mr. Shemesh is responsible for the day-to-day operations of CIM Group, including strategic initiatives, property management and leasing and investor relations. Prior to CIM Group, Mr. Shemesh was involved in a number of successful entrepreneurial real estate activities, including co-founding Dekel Development, which developed a variety of commercial and multifamily properties in Los Angeles. Mr. Shemesh has in-depth knowledge of CIM Urban's business and operations and has significant experience with the real estate investment process and strategic planning as a result of his experience with CIM Group, including as Co-Founder thereof.

Shaul Kuba, Co-Founder and a Principal of CIM Group, has been an active real estate investor for over 23 years. Since co-founding the firm in 1994, Mr. Kuba has been an integral part of building CIM Group's investment platforms. As a Principal and head of the firm's development group, he is actively involved in the development, redevelopment and repositioning of CIM Group's real estate investments including notable projects such as 432 Park Avenue. Additionally, Mr. Kuba is instrumental in sourcing new investment transactions and establishing and maintaining relationships with national and regional retailers, hospitality brands and restaurateurs. He serves on the firm's Investment and Asset Management Committees and provides guidance on the diverse investment ideas across CIM Group's platforms. Prior to CIM Group, Mr. Kuba was involved in a number of successful entrepreneurial real estate activities including co-founding Dekel Development, which developed a variety of commercial and multifamily properties in Los Angeles. Mr. Kuba has in-depth knowledge of CIM Urban's business and operations and has significant experience with the real estate development process and sourcing new investment transactions as a result of his experience with CIM Group, including as Co-Founder thereof.

Kelly Eppich is a Principal, Investments of CIM Group. He joined CIM Group in 2002. Prior to joining CIM Group, Mr. Eppich served as the Chief Financial Officer of the Decurion Corporation/Pacific Theatres. In that capacity, he was responsible for all areas of finance, accounting, treasury, risk management and information systems development of the firm. From 1989 to 2000, he was Vice President Finance / Controller and then Vice President of Business Development, Finance and Administration for the International Recreation Enterprises Division of Warner Bros., which was responsible for the acquisition, development and operations of theme parks and multiplex theater real estate projects outside of the United States. Prior to joining Warner Bros., Mr. Eppich served as an Assistant Vice President and Assistant Corporate Controller for Maxicare Health Plans Inc. (1986 - 1989) and worked for Ernst & Young (1979 - 1986). Mr. Eppich has in-depth knowledge of CIM Urban's business and operations and has significant experience in the preparation and analysis of financial statements, strategic planning and financial management.

## **Independence of the Board of Trust Managers**

Upon consummation of the Merger and assuming conversion of the PMC Commercial Preferred Shares, the CIM Parties will be the beneficial owner of approximately 97.8% of the outstanding PMC Commercial Common Shares. As a result, PMC Commercial will be a controlled company exempt from certain national securities exchange rules requiring a board of directors with a majority of independent directors. It is anticipated that CIM REIT will propose three Trust Managers in addition to those identified above under the caption Management and Board of Trust Managers. Based upon information that will be provided by each proposed Trust Manager concerning his background, employment and affiliations, including family relationships, PMC Commercial's Nominating and Corporate Governance Committee will determine whether such proposed Trust Managers will be considered independent, as that term is defined under the applicable rules and regulations of the SEC and the listing requirements and rules of the applicable national securities exchange.

---

## **Table of Contents**

### **Committees of the Board of Trust Managers**

Effective upon completion of the Merger, the Board of Trust Managers will continue to have an audit committee. The Board of Trust Managers is not required to have a compensation committee or nominating and corporate governance committee as long as it is a controlled company, but may decide to have such committees in the future. The proposed composition and responsibilities of the audit committee are described below. Members will serve on the audit committee until their resignation or until otherwise determined by the Board of Trust Managers.

The Audit Committee will consist only of independent Trust Managers. The Audit Committee will be comprised entirely of Trust Managers who meet the independence and financial literacy requirements of the applicable national securities exchange listing standards as well as the standards established under the Sarbanes-Oxley Act. In addition, the Board of Trust Managers will determine whether one of the Audit Committee members qualifies as an audit committee financial expert as defined in SEC rules.

The Audit Committee's responsibilities include providing assistance to the Board of Trust Managers in fulfilling its responsibilities with respect to oversight of the integrity of PMC Commercial's financial statements, PMC Commercial's compliance with legal and regulatory requirements, the independent registered public accounting firm's qualifications, performance and independence, and performance of the internal audit function. In accordance with its charter, the Audit Committee has sole authority to appoint and replace the independent registered public accounting firm, who reports directly to the Audit Committee, approve the engagement fee of the independent registered public accounting firm and pre-approve the audit services and any permitted non-audit services they may provide to PMC Commercial. In addition, the Audit Committee reviews the scope of audits as well as the annual audit plan and evaluates matters relating to the audit and internal controls of PMC Commercial. The Audit Committee will hold separate executive sessions, outside the presence of executive management, with PMC Commercial's independent registered public accounting firm.

### **Code of Business Conduct and Ethics**

PMC Commercial has a Code of Business Conduct and Ethics that applies to all Trust Managers, officers and employees, including PMC Commercial's principal executive officer and principal financial and accounting officer and a Code of Ethical Conduct for Senior Financial Officers (collectively, the Codes of Conduct). The purposes of the Codes of Conduct are to:

promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

promote full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by PMC Commercial; and

promote compliance with all applicable rules and regulations that apply to PMC Commercial and its officers and Trust Managers. If the Board of Trust Managers amends any provisions of either Code of Conduct that applies to PMC Commercial's principal executive officer or senior financial officers or grants a waiver in favor of any such persons, PMC Commercial intends to satisfy its disclosure requirements by promptly publishing the text of the amendment or the specifics of the waiver on its website at [www.pmctrust.com](http://www.pmctrust.com).

PMC Commercial intends to continue to act promptly to incorporate not only the actual requirements of rules adopted with respect to corporate governance matters but also additional voluntary measures it deems appropriate. The Charter for the Audit Committee and the Corporate Governance Guidelines and Code of Conduct may be viewed on PMC Commercial's website at [www.pmctrust.com](http://www.pmctrust.com) under the Corporate Governance section. In addition, PMC Commercial will mail copies of the Corporate Governance Guidelines to shareholders upon their written request.



**Table of Contents****Trust Manager Compensation**

After consummation of the Merger, PMC Commercial intends to continue to use a combination of cash and share-based compensation to attract and retain qualified candidates to serve on the Board of Trust Managers. In setting Trust Managers' compensation, the Board of Trust Managers will consider, among other things, the substantial time commitment on the part of Trust Managers in fulfilling their duties as well as the skill level it requires of Trust Managers. In addition, Trust Managers will be reimbursed by PMC Commercial for their expenses related to attending board or committee meetings.

Following consummation of the Merger, it is anticipated that the independent Trust Managers will be compensated according to the following schedule:

Annual board retainer	\$ 50,000
Annual audit committee chairman retainer	\$ 20,000

The annual board retainer will be paid quarterly in advance and compensates the independent Trust Managers for the period beginning on the date of the annual meeting of the shareholders through the day immediately prior to the following annual meeting of the shareholders.

The annual audit committee chairman retainer will be payable quarterly.

In addition, PMC Commercial's 2005 Equity Incentive Plan, which will terminate in 2015, allows for the issuance of share awards at the discretion of the Board of Trust Managers in accordance with the plan. It is anticipated that each independent Trust Manager will receive (i) a share award of 10,000 PMC Commercial Common Shares, which will vest twelve months from the date of the share award, and (ii) an annual share award thereafter of PMC Commercial Common Shares in an amount equal to \$50,000 in value.

**Executive Compensation**

CIM Urban has no employees. After consummation of the Merger, the business of CIM Urban will be managed by the Advisor.

PMC Commercial entered into a Restated Executive Employment Agreement with Mr. Salit that will become effective upon consummation of the Merger and amends certain of his terms of compensation. See "THE MERGER - Interests of PMC Commercial Trust Managers and Executive Officers in the Merger" on page 79. After the consummation of the Merger, Mr. Salit's compensation will continue to be paid by PMC Commercial. Mr. Thompson will provide services as Chief Financial Officer to PMC Commercial pursuant to the Master Services Agreement. Any other executive compensation arrangements and policies that PMC Commercial will provide for its named executive officers will be determined by the Board of Trust Managers after consummation of the Merger.

**STRATEGY OF PMC COMMERCIAL AFTER THE MERGER****Business Strategy**

After the Merger, PMC Commercial and/or its subsidiaries plan to (i) invest primarily in substantially stabilized real estate and real estate-related assets in high density, high barrier-to-entry urban markets throughout North America, in a manner similar to the current investment strategy of CIM Urban and (ii) continue to originate loans to small businesses collateralized by first liens on the real estate of the related businesses, in accordance with the current investment strategy of PMC Commercial but with a focus on expanding PMC Commercial's existing business of originating loans through the Small Business Administration's 7(a) Guaranteed Loan Program. The Advisor will provide the day-to-day management of CIM Urban's operations.

---

## **Table of Contents**

CIM Group will manage most aspects of PMC Commercial's real estate business after the completion of the Merger, and it is anticipated that PMC Commercial will be the principal investment vehicle through which CIM Group will place substantially stabilized real estate investments.

PMC Commercial expects to generate additional value by:

expanding the existing CIM Urban portfolio through the acquisition of substantially stabilized real estate and real estate-related assets at yields which are accretive relative to the targeted dividend;

increasing the leverage of the CIM Urban portfolio from its current 15.2% ratio<sup>6</sup> to a ratio more in line with the broad universe of REITs, which currently averages approximately 41%<sup>7</sup>, and to the extent additional borrowing is then available, subsequently investing the proceeds of approximately \$1.0 billion into additional investments; and

expanding, over time, into new real estate-related activities supported by CIM Group's broad real estate investment capabilities. These activities may include (i) originating and/or investing in a variety of loan products, including, but not limited to, mezzanine loans, commercial real estate loans and other types of loans, (ii) real estate development activities to create core property or otherwise, and/or (iii) forming an open-ended REIT to raise additional capital from institutional investors, which would involve a joint venture with CIM Urban.

The Advisor or one of its affiliates currently serves as the investment manager of CIM VI, a private fund formed to invest in substantially stabilized real estate and real estate-related assets located in urban areas that CIM Group has already qualified for investment. There will be a significant overlap in the assets and investment strategies of CIM Urban and CIM VI, and many of the same trading and investment personnel will provide services to both entities.

Although there are no contractual restrictions limiting the ability of CIM Urban to acquire additional properties, it is the intention of CIM Group not to provide CIM Urban with acquisition opportunities until the equity capital of CIM VI is fully committed. As of the date of this proxy statement/prospectus, approximately \$116 million of equity in CIM VI remains uncommitted; since January 1, 2013, CIM VI has committed and/or invested \$499 million of equity in connection with the purchase, or commitment to purchase, of \$683 million of real estate assets. See **RISK FACTORS – Risks Related to CIM Urban's Business and Properties** – CIM Urban competes with current and future investment entities affiliated with the Advisor

## **The Reincorporation**

If the Share Issuance Proposal is approved by PMC Commercial shareholders and the Merger is consummated, PMC Commercial will hold a meeting of shareholders as soon as practicable thereafter to approve an increase in the number of authorized PMC Commercial Common Shares to one billion (thereby satisfying the condition for the automatic conversion of the PMC Commercial Preferred Shares issued in connection with the Merger into an aggregate of 455,199,997 PMC Commercial Common Shares). At this meeting, PMC Commercial shareholders may also be asked to approve (i) a reverse stock split of the outstanding PMC Commercial Common Shares (including the PMC Commercial Common Shares issued upon automatic conversion of the PMC Commercial Preferred Shares), and/or (ii) the reincorporation of PMC Commercial from Texas to Maryland (the "Reincorporation"). The Reincorporation would be effected by a merger of PMC Commercial ( "PMC Commercial (TX)" ) with and into a newly formed, wholly-owned Maryland subsidiary ( "PMC Commercial (MD)" ). The CIM Parties have agreed to vote their 97.8% post-Merger

<sup>6</sup> Leverage ratio reflects the total debt outstanding, inclusive of CIM Urban's unsecured revolving credit line of approximately \$367 million, as of June 30, 2013, divided by CIM Urban's determination of the fair market value of its total assets of approximately \$2.4 billion, as of June 30, 2013.

<sup>7</sup> This average reflects the ratio of debt to gross asset value of each REIT covered by Morgan Stanley Equity Research; source: *Weekly REIT Insights: 2Q13 Earnings Preview*, August 19, 2013.

## **Table of Contents**

beneficial ownership in PMC Commercial Common Shares in favor of each of the proposals presented to shareholders at this meeting.

Following the potential Reincorporation, PMC Commercial's corporate governance and the rights of shareholders would be governed by the Maryland General Corporation Law ( MGCL ) and the proposed new charter and bylaws of PMC Commercial (MD) (respectively, the Maryland Charter and the Maryland Bylaws ), which are attached hereto as Annex F and Annex G), instead of Texas law and the Declaration of Trust of PMC Commercial and existing PMC Commercial Bylaws. The Maryland Charter and Maryland Bylaws and being governed by Maryland law would bring PMC Commercial's corporate governance more in line with that of other public REITs, over 70% of which are currently organized under Maryland law. The Maryland Charter also would increase the number of authorized PMC Commercial Common Shares so that the outstanding PMC Commercial Preferred Shares could automatically convert into PMC Commercial Common Shares.

### ***What Would be the Benefits of the Reincorporation?***

Potential benefits of changing PMC Commercial's state of incorporation from Texas to Maryland include:

upon consummation of the Reincorporation, PMC Commercial would be governed by the MGCL, which contains provisions specifically conducive to the operations of a REIT;

Maryland offers additional protections for director and officer indemnification, which should facilitate PMC Commercial's efforts to attract and retain qualified directors and officers;

Maryland law offers additional protections in the event of an unsolicited takeover attempt, which may better protect shareholder interests;

the fact that the large majority of public reporting REITs are currently organized under the laws of Maryland has resulted in the development of a more comprehensive and clearer body of law and practice relating to Maryland REITs than is available to a REIT that is organized in Texas; and

being governed by Maryland law would bring PMC Commercial's corporate governance more in line with that of other REITs.

### ***What Would be the Disadvantages of the Reincorporation?***

While there are numerous potential benefits from the potential Reincorporation, Texas and Maryland law differ in some respects. The rights of shareholders and the powers of the respective Board of Trust Managers and board of directors and of PMC Commercial's officers under Texas and Maryland law, as well as the rights of shareholders and the powers of the Board of Trust Managers and PMC Commercial's officers under the Declaration of Trust of PMC Commercial and the existing PMC Commercial Bylaws, as compared to the rights of PMC Commercial's shareholders and the powers of the board of directors and PMC Commercial's officers under the Maryland Charter and the Maryland Bylaws, are discussed in more detail below.

### ***How Would the Rights of PMC Commercial Shareholders and Corporate Governance Compare Before and After the Reincorporation?***

Upon completion of the merger effecting the Reincorporation, shareholders in PMC Commercial (TX) would become stockholders in PMC Commercial (MD). The rights of the stockholders of PMC Commercial (MD) would be governed by the applicable laws of the State of Maryland, including the MGCL, and by the Maryland Charter and Maryland Bylaws. Since PMC Commercial (TX) is a Texas REIT, the rights of the shareholders of PMC Commercial (TX) are governed by the applicable laws of the State of Texas and by the Declaration of Trust of PMC Commercial and the existing PMC Commercial Bylaws.

---

**Table of Contents**

**Certain Material Provisions of Maryland Law and the Maryland Charter and Maryland Bylaws**

The following description is a summary of certain material provisions of Maryland law and of the Maryland Charter and Maryland Bylaws. Certain provisions of Maryland law and the Maryland Charter and Maryland Bylaws may have the effect of delaying, deferring or preventing a takeover of PMC Commercial (MD) (including in connection with transactions in which stockholders might otherwise receive a premium for their shares over the then current prices). The summary is not complete. We encourage you to read the Maryland Charter and Maryland Bylaws, which are attached to this proxy statement/prospectus as Annexes F and G, respectively.

***Board of Directors***

The Maryland Charter and Maryland Bylaws provide that the number of directors constituting PMC Commercial (MD) s full board of directors will be not less than the minimum number required by Maryland law. The Maryland Bylaws provide that the number of directors constituting PMC Commercial (MD) s full board of directors will not exceed 25 and the Maryland Charter and Maryland Bylaws provide that the number of directors constituting PMC Commercial (MD) s full board of directors may only be increased or decreased by a vote of a majority of the directors. The Maryland Charter provides that any and all vacancies on the board of directors (including as a result of an increase in the number of directors constituting PMC Commercial (MD) s full board of directors) may be filled only by the affirmative vote of a majority of the remaining directors even if the remaining directors constitute less than a quorum. The Maryland Charter further provides that, at such time as PMC Commercial (MD) becomes eligible to make the election (which PMC Commercial expects will be upon consummation of the potential Reincorporation), PMC Commercial (MD) elects to be subject to Section 3-804(c) of Subtitle 8 of Title 3 of the MGCL so that any and all vacancies (including as a result of an increase in the number of directors constituting PMC Commercial (MD) s full board of directors) on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors even if the remaining directors constitute less than a quorum. Any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies. The Maryland Charter provides that a director may be removed with or without cause by the stockholders upon the affirmative vote of two-thirds of the votes entitled to be cast generally in the election of directors. However, because of the board s exclusive power to fill vacant directorships, stockholders will be precluded from filling the vacancies created by any removal with their own nominees. Each member of PMC Commercial (MD) s board of directors is elected by stockholders to serve until the next annual meeting of stockholders and until his or her successor is duly elected and qualifies. Holders of PMC Commercial Common Shares will have no right to cumulative voting in the election of directors. Directors are elected by a plurality of the votes cast. Consequently, at each annual meeting of stockholders, the holders of a majority of the PMC Commercial Common Shares can elect all of the directors then standing for election. If the holders of any class or series of stock that PMC Commercial (MD) may subsequently classify or reclassify shall have the right to elect one or more directors separately as a class, then such director or directors so elected shall serve for the remainder of the term in which such vacancy or vacancies occurred and a successor is duly elected and qualifies. Additionally, any such director or directors may be removed only by the holders of such class or series.

***Action by Stockholders***

Under the MGCL, stockholder action by common stockholders can be taken only at an annual or special meeting of stockholders by a majority of the votes cast (unless more than a majority of the votes cast is required by statute or by the charter) or by unanimous consent in lieu of a meeting, unless the charter provides for a lesser percentage (which the Maryland Charter does not). Stockholder action by preferred stockholders can be taken only at an annual or special meeting of stockholders or by a consent in lieu of a meeting by the holders of shares entitled to cast not less than the minimum number of votes that would be necessary to authorize or take the action at a stockholders meeting if the corporation gives notice of the action to each holder of the class of stock not later than ten days after the effective time of the action, unless the charter provides otherwise (which the

## **Table of Contents**

Maryland Charter does). The Maryland Charter provides that any action required or permitted to be taken at a meeting of the stockholders may be taken without a meeting if a unanimous consent which sets forth the action is given by each stockholder entitled to vote on the matter in writing or by electronic transmission. Special meetings of stockholders may be called by the board of directors, the chairman of the board of directors or the President, and must be called, subject to the satisfaction of certain procedural and information requirements by the stockholders requesting the meeting, by the Secretary upon the written request of stockholders entitled to cast a majority of the votes entitled to be cast on any matter that may properly be considered at such meeting. These provisions, combined with the advance notice provisions of the Maryland Bylaws, which are summarized below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

### ***Amendment to the Maryland Charter and Maryland Bylaws***

The Maryland Charter may be amended only if the amendment is declared advisable by the board of directors and approved by the affirmative vote of not less than a majority of the stockholder votes entitled to be cast on the matter, unless the amendment either is permitted to be made without stockholder approval under the MGCL or by specific provision in the Maryland Charter or requires a different level of stockholder approval by specific provision in the Maryland Charter. As permitted by the MGCL, the Maryland Charter contains a provision permitting the directors, without any action by the stockholders, to amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that PMC Commercial (MD) has authority to issue and to classify unissued shares of common stock or preferred stock or to reclassify any previously classified, but unissued, shares of common stock or preferred stock, into other classes or series of stock. The board of directors has the exclusive power to adopt, amend, alter or repeal any provision of the Maryland Bylaws and make new bylaws. Any amendment of the provisions of the Maryland Charter relating to the removal of directors, restrictions on transfer and ownership of shares, indemnification or the requirements for the amendment of any of these provisions of the Maryland Charter requires that such amendment be declared advisable by the board of directors and approved by the affirmative vote of not less than two-thirds of all of the stockholder votes entitled to be cast on the matter.

### ***Dissolution***

Pursuant to the MGCL, the dissolution of PMC Commercial (MD) must be approved by a majority of the entire board of directors and by the affirmative vote of stockholders entitled to cast not less than a majority of all of the votes entitled to be cast on the matter.

### ***Business Combinations***

Maryland law prohibits business combinations between PMC Commercial (MD) and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or transfer of equity securities, liquidation plan or reclassification of equity securities. Maryland law defines an interested stockholder as:

any person or entity who beneficially owns 10% or more of the voting power of the outstanding voting stock; or

an affiliate or associate of PMC Commercial (MD) who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock.

A person is not an interested stockholder if the board of directors approves in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board of directors.

## **Table of Contents**

After the five-year prohibition and in addition to any vote otherwise required by Maryland law and the Maryland Charter, any business combination between PMC Commercial (MD) and an interested stockholder or an affiliate of an interested stockholder generally must be recommended by the board of directors and approved by at least:

80% of the stockholder votes entitled to be cast by holders of the then outstanding shares of voting stock; and

two-thirds of the stockholder votes entitled to be cast by holders of voting stock other than stock held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or stock held by an affiliate or associate of the interested stockholder.

These supermajority vote requirements do not apply if common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its stock.

The statute permits various exemptions from its provisions, including business combinations that are approved or exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder.

Pursuant to the statute, it is expected that the board of directors of PMC Commercial (MD), by resolution, will exempt any business combinations between PMC Commercial (MD) and any person who is an existing, or becomes in the future an, interested stockholder. Consequently, the five-year prohibition and the supermajority vote requirements will likely not apply to business combinations between PMC Commercial (MD) and any such person. As a result, such persons may be able to enter into business combinations with PMC Commercial (MD) that may not be in the best interest of stockholders, without compliance with the statute, including its supermajority vote requirements. Additionally, this exempting resolution may be altered, revoked or repeated in whole or in part at any time and PMC Commercial (MD) may opt back into the business combination provisions of the MGCL. If this resolution is revoked or repealed, or not effectuated, the statute may discourage others from trying to acquire control of PMC Commercial (MD) and increase the difficulty of consummating any offer. It is expected that the board of directors of PMC Commercial (MD), by resolution, will exempt CIM Group from this prohibition.

### ***Control Share Acquisitions***

Maryland law provides that holders of control shares of a Maryland corporation acquired in a control share acquisition have no voting rights, except to the extent approved by the affirmative vote of at least two-thirds of the stockholder votes entitled to be cast on the matter. Shares owned by the acquirer or by officers or by employees who are also directors are excluded from the shares entitled to vote on the matter. Control shares are voting shares of stock that, if aggregated with all other shares of stock currently owned by the acquiring person, or in respect of which the acquiring person is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiring person to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions. A person who has made or proposes to make a control share acquisition may compel the board of directors to call a special meeting of stockholders to be held within 50 days of the demand to consider the voting rights of the shares. The right to compel the calling of a special

## **Table of Contents**

meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, PMC Commercial (MD) may present the question at any stockholders' meeting.

If voting rights are not approved at the stockholders' meeting or if the acquiring person does not deliver the statement required by Maryland law, then, subject to certain conditions and limitations, PMC Commercial (MD) may redeem any or all of the control shares, except those for which voting rights have previously been approved, for fair value. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of the shares were considered and not approved. If voting rights for control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if PMC Commercial (MD) is a party to the transaction, nor does it apply to acquisitions approved by or exempted by the Maryland Charter or Maryland Bylaws.

The Maryland Bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of PMC Commercial (MD) stock. Consequently, the control share acquisition statute will not apply to PMC Commercial (MD) unless the board of directors later amends the Maryland Bylaws to modify or eliminate this provision, which it may do without stockholder approval, and which it may make effective prospectively or retrospectively.

### ***Maryland Unsolicited Takeovers Act***

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions:

a classified board;

a two-thirds vote requirement for removing a director;

a requirement that the number of directors be fixed only by vote of directors;

a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy occurred; and

a majority requirement for the calling of a special meeting of stockholders.

In the Maryland Charter, PMC Commercial (MD) has elected that vacancies on the board be filled only by the remaining directors, even if the remaining directors do not constitute a quorum, and for the remainder of the full term of the directorship in which the vacancy occurred. Through provisions in the Maryland Charter and Maryland Bylaws unrelated to Subtitle 8, PMC Commercial (MD) (a) requires the affirmative vote of the stockholders entitled to cast at least two-thirds of all votes entitled to be cast generally in the election of directors for the removal of any director from the board, (b) vests in the board the exclusive power to fix the number of directorships and (c) provides that unless called by the chairman of the board of directors, the President or the board of directors, a special meeting of stockholders may only be called by the Secretary upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast on any matter that may be properly considered at the meeting.

## **Table of Contents**

### ***Limitation of Liability and Indemnification***

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from:

actual receipt of an improper benefit in money, property or services; or

active and deliberate dishonesty established by a final judgment and which is material to the cause of action.

The Maryland Charter contains such a provision that eliminates directors' and officers' liability for money damages to the maximum extent permitted by Maryland law. These limitations of liability do not apply to liabilities arising under the federal securities laws and do not generally affect the availability of equitable remedies such as injunctive relief or rescission. The Maryland Charter and Maryland Bylaws also provide that PMC Commercial (MD) must indemnify (to the maximum extent permitted by Maryland law), and pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, any individual who is a present or former director or officer of PMC Commercial (MD) or a predecessor of PMC Commercial (MD) from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in such capacity as a director or officer. Additionally, the Maryland Charter provides that PMC Commercial (MD) may, with the approval of the board of directors, indemnify, if and to the extent determined to be authorized and appropriate in accordance with applicable law, any person permitted, but not required, to be indemnified under Maryland law by PMC Commercial (MD) or a predecessor of PMC Commercial (MD).

Maryland law requires a corporation (unless its charter provides otherwise, which the Maryland Charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she was made, or was threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that:

the act or omission of the director or officer was material to the matter giving rise to the proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty;

the director or officer actually received an improper personal benefit in money, property or services; or

in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis of that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and

a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Insofar as the foregoing provisions permit indemnification of directors, executive officers or persons controlling PMC Commercial (MD) for liability arising under the Securities Act, PMC Commercial (MD) has been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.





## **Table of Contents**

### ***Meetings of Stockholders***

Special meetings of stockholders may be called only by the board of directors, the chairman of the board of directors, the President or, in the case of a stockholder-requested special meeting, by the Secretary upon the written request of the stockholders entitled to cast not less than a majority of all votes entitled to be cast on any matter that may be properly considered at such meeting. Only matters set forth in the notice of the special meeting may be considered and acted upon at such a meeting.

Annual meetings of stockholders for the election of directors and any other business that may be considered and acted upon shall be held on a date and at a time set by the board of directors or, in the absence of such a determination, on the second Monday in the month of May at 2:00 p.m. Eastern Time, if a business day.

### ***Interested Director and Officer Transactions***

Pursuant to the MGCL, a contract or other transaction between PMC Commercial (MD) and a director or between PMC Commercial (MD) and any other corporation or other entity in which any of PMC Commercial (MD) s directors is a director or has a material financial interest is not void or voidable solely on the grounds of such common directorship or interest, the presence of such director at the meeting at which the contract or transaction is authorized, approved or ratified or the counting of the director s vote in favor thereof, if:

the fact of the common directorship or interest is disclosed to the board of directors or a committee of the board, and the board or committee authorizes, approves or ratifies the transaction or contract by the affirmative vote of a majority of disinterested directors, even if the disinterested directors constitute less than a quorum;

the fact of the common directorship or interest is disclosed to PMC Commercial (MD) s stockholders entitled to vote thereon, and the transaction or contract is authorized, approved or ratified by a majority of the votes cast by the stockholders entitled to vote other than the votes of shares owned of record or beneficially by the interested director or corporation or other entity; or

the transaction or contract is fair and reasonable to PMC Commercial (MD).

PMC Commercial has a related party transaction policy which requires a committee of independent directors to approve related party transactions. In general, the committee will only approve or ratify a related party transaction if it determines that such transaction is reasonable and fair to PMC Commercial. See the section titled "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" Code of Ethics and Related Person Policy on page 200.

### ***Advance Notice of Director Nominations and New Business***

The Maryland Bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only:

pursuant to PMC Commercial (MD) s notice of the meeting;

by or at the direction of the board of directors; or

by a stockholder who is a stockholder of record both at the time of giving notice and at the time of the meeting, who is entitled to vote at the meeting in the election of the directors then standing for election or on such other business the stockholder proposes to bring before the meeting and who has complied with the advance notice procedures of the Maryland Bylaws.



**Table of Contents**

With respect to special meetings of stockholders, only the business specified in PMC Commercial (MD) s notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only:

pursuant to PMC Commercial (MD) s notice of the meeting; and

by or at the direction of the board of directors; or

provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is a stockholder of record both at the time of giving notice and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice provisions of the bylaws.

Generally, in accordance with the Maryland Bylaws, a stockholder seeking to nominate a director or bring other business before the annual meeting of stockholders must deliver a notice to the Secretary not later than 5:00 p.m., Eastern Time, on the 120th day, but not earlier than the 150th day, prior to the first anniversary of the date of mailing of the notice for the prior year s annual meeting of stockholders (for purposes of the 2014 annual meeting, to constitute timely notice by the stockholder, such notice must be delivered not earlier than the 150th day prior to the date of such annual meeting of stockholders and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting of stockholders or the 10th day following the day on which public announcement of the date of the annual meeting of stockholders is first made by PMC Commercial (MD)). For a stockholder seeking to nominate a candidate for the board of directors, the notice must describe various matters regarding the nominee, including name, address, occupation, number of shares held and other specified matters set forth in the Maryland Bylaws. For a stockholder seeking to propose other business, the notice must include a description of the proposed business, the reasons for the proposal and other specified matters.

**Table of Contents**

**Comparison of Rights of Shareholders of PMC Commercial (TX) and Stockholders of PMC Commercial (MD)**

The following is a summary comparison of:

the current rights of PMC Commercial (TX) shareholders under the Texas Business Organizations Code (the TBOC ), the Declaration of Trust of PMC Commercial and the existing PMC Commercial Bylaws; and

the future rights of PMC Commercial (MD) stockholders under the MGCL, the Maryland Charter and the Maryland Bylaws. The statements in this section are qualified in their entirety by reference to, and are subject to, the detailed provisions of the MGCL, the TBOC, the Declaration of Trust of PMC Commercial, the existing PMC Commercial Bylaws, the Maryland Charter and the Maryland Bylaws. Copies of the Declaration of Trust of PMC Commercial and the existing PMC Commercial Bylaws are incorporated by reference in this proxy statement/prospectus. Copies of the proposed new Maryland Charter and the Maryland Bylaws are attached to this proxy statement/prospectus as Annex F and Annex G, respectively.

**PMC Commercial (TX)**

**PMC Commercial (MD)**

**Authorized Securities**

100,000,000 shares of beneficial interest are authorized. Under the Declaration of Trust of PMC Commercial (TX), the Board of Trust Managers has the power to (i) create and authorize PMC Commercial Common Shares and other types of classes of securities from time to time, (ii) authorize from time to time the issuance of one or more series of preferred shares and, with respect to such series, to fix the number, designation, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption of such series, and (iii) classify or reclassify any unissued PMC Commercial Common Shares or preferred shares by setting or changing the number, designation, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of any such shares.

900,000,000 shares of common stock and 100,000,000 shares of preferred stock are authorized. Under the terms of the Maryland Charter, the board of directors has the power to (i) amend the charter from time to time without stockholder approval so as to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series, (ii) designate and issue one or more classes or series of common stock or preferred stock, with whatever powers, preferences and rights as the board may desire, and (iii) classify or reclassify any unissued shares of common stock or preferred stock into other classes or series of stock.

**Voting Rights**

At any meeting of shareholders, the presence (in person or by proxy) of shareholders entitled to cast a majority of all the votes entitled to be cast at such meeting shall constitute a quorum, except as otherwise provided by law, PMC Commercial (TX) s Declaration of Trust or the existing PMC Commercial (TX) Bylaws, but in no event shall a quorum consist of shareholders holding less than one-third of the shares entitled to vote.

At any meeting of stockholders, the presence (in person or by proxy) of stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting on any matter shall constitute a quorum.

Unless the TBOC, PMC Commercial (TX) s Declaration of Trust or the existing PMC Commercial (TX) Bylaws requires a greater percentage, any matter to be voted on by shareholders will be approved upon the affirmative vote of holders of at least a majority of the PMC Commercial Common Shares that are

Generally, a majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any matter which may properly come before the meeting, unless more than a majority of the votes cast is required by the Maryland Charter, listing standards of the national securities exchange on which the shares of common stock and preferred stock are to be listed or applicable law or regulation. A plurality of all the votes cast at a meeting of stockholders duly called

**Table of Contents**

**PMC Commercial (TX)**

represented in person or by proxy at a meeting of shareholders at which a quorum is present. The existing PMC Commercial (TX) Bylaws provide that there are no cumulative voting rights.

Special meetings of shareholders may be called by the Trust Managers, any officer of PMC Commercial or the holders of at least 10% of all shares entitled to vote at the meeting, or such other person as may be provided in PMC Commercial (TX) s Declaration of Trust or the existing PMC Commercial (TX) Bylaws.

The existing PMC Commercial (TX) Bylaws provide that holders of PMC Commercial Common Shares are entitled to vote at each shareholder meeting on each matter submitted to a vote, and any matter to be voted on by holders of such shares shall be approved upon the affirmative vote of the holders of at least a majority of the PMC Commercial Common Shares, subject, however, to the provisions of the TBOC and the Declaration of Trust that may require a greater voting requirement. The TBOC requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of a REIT entitled to vote on a fundamental business transaction to approve the transaction.

The TBOC generally provides that the shareholders of a REIT that is a party to a merger or involved in a conversion, a plan of exchange of shares or the sale of all or substantially all of the assets of the REIT (referred to hereafter as a sale ) must approve the merger, conversion, plan of exchange of shares or sale in accordance with the TBOC. In each instance, the trust managers must adopt a resolution that: (1) approves the plan of merger, the plan of conversion or the plan of exchange (each referred to hereafter as a plan ) or sale; and (2) if shareholder approval is required, (A) recommends that such plan or sale be approved by the shareholders; or (B) directs that such plan or sale be submitted to the shareholders for approval without recommendation if the trust managers determine for any reason not to recommend approval of such plan or sale. The trust managers may place conditions on the submission of such a plan or sale to the shareholders. If the trust managers approve such a plan or sale required to be approved by the shareholders but do not adopt a resolution recommending that such plan or sale be approved by the shareholders, the trust managers shall communicate to the shareholders the reason for the trust managers determination to submit such plan or sale without a recommendation. Notwithstanding, (a) unless required by a REIT s declaration of trust, a plan of

**PMC Commercial (MD)**

and at which a quorum is present shall be sufficient to elect a director. The Maryland Charter provides that there are no cumulative voting rights.

Special meetings of stockholders may be called by the chairman of the board of directors, the President or the board of directors and must be called by the Secretary upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast on any matter that may be properly considered at such meeting.

**Business Combinations**

The MGCL provides that a board of directors shall adopt a resolution declaring a proposed merger, consolidation, share exchange or sale of substantially all of the assets of a corporation is advisable and that the transaction shall be submitted to the stockholders for a vote. The MGCL provides that the affirmative vote of two-thirds of all the votes entitled to be cast is required to approve a merger, consolidation, share exchange or sale of all or substantially all of the assets, subject to certain exceptions in which only the board of directors need approve.

**Table of Contents**

**PMC Commercial (TX)**

merger is not required to be approved by the shareholders of the REIT if: (1) the REIT is the sole surviving REIT in the merger; (2) the REIT's declaration of trust following the merger will not differ from before the merger; (3) immediately after the effective date of the merger, each shareholder whose shares were outstanding immediately before the effective date of the merger will hold the same number of shares, with identical designations, preferences, limitations and relative rights; (4) the sum of the voting power of the number of voting shares outstanding immediately after the merger and the voting power of securities that may be acquired on the conversion or exercise of securities issued under the merger does not exceed by more than 20% the voting power of the total number of voting shares of the REIT that are outstanding immediately before the merger; and (5) the sum of the number of participating shares that are outstanding immediately after the merger and the number of participating shares that may be acquired on the conversion or exercise of securities issued under the merger does not exceed by more than 20% the total number of participating shares of the REIT that are outstanding immediately before the merger; and (b) unless required by a REIT's declaration of trust, certain plans of merger under the TBOC (i.e., involving the creation of a holding company by merger or a short form merger) do not require the approval of the shareholders of the REIT.

**PMC Commercial (MD)**

Except as provided by the declaration of trust, a sale, lease, pledge, mortgage, assignment, transfer or other conveyance of an interest in real property or other assets of a REIT does not require the approval or consent of the shareholders of the REIT unless the transaction constitutes a sale of all or substantially all of the assets of the REIT. After the approval of the sale by the shareholders, the trust managers may abandon the sale of all or substantially all of the assets of the REIT, subject to the rights of a third party under a contract relating to the assets, without further action or approval by the shareholders.

**Notice of Shareholder and Stockholder Meetings**

Notice of any annual or special shareholder meeting will be sent to shareholders entitled to vote at such meeting not less than 10 days, nor more than 60 days prior to, any meeting. For purposes of determining shareholders entitled to notice of or to vote at any meeting of shareholders, the record date may not be more than 60 days nor less than 10 days prior to the date of the meeting or other action.

Notice of any annual or special stockholder meeting will be sent to stockholders entitled to notice of or vote at such meeting not less than 10 days, nor more than 90 days prior to any meeting. For purposes of determining stockholders entitled to notice of any meeting or to vote or to give consent to action without a meeting, a record date will not be more than 90 days nor fewer than 10 days prior to the date of any meeting.

**Table of Contents**

**PMC Commercial (TX)**

**Advance Notice of Shareholder and Stockholder Nominees and Other Shareholder and Stockholder Proposals**

Generally, in accordance with PMC Commercial's existing Bylaws, a shareholder seeking to nominate a Trust Manager or bring other business before the annual meeting of shareholders must deliver a notice to the secretary not later than 5:00 p.m., Central Time, on the 90th day, but not earlier than the 120th day, prior to the anniversary of the date of the prior year's annual meeting of shareholders; provided, however, that in the event that the date of the annual meeting of shareholders is advanced or delayed by more than 30 days from the first anniversary of the date of the prior year's annual meeting of shareholders, notice by the shareholder to be timely must be delivered not earlier than the 120th day prior to the date of such annual meeting of shareholders and not later than 5:00 p.m., Central Time, on the later of the 90th day prior to the date of such annual meeting of shareholders or the 10th day following the day on which public announcement of the date of the annual meeting of shareholders is first made by PMC Commercial (TX). For a shareholder seeking to nominate a candidate for the Board of Trust Managers, the notice must describe various matters regarding the nominee, including name, address, occupation, number of shares held and other specified matters. For a shareholder seeking to propose other business, the notice must include a description of the proposed business, the reasons for the proposal and other specified matters.

**Corporate Action Without a Meeting**

Any action upon which a vote of shareholders is required or permitted may be taken without a meeting of shareholders if a consent in writing, setting forth the action so taken, is signed by all shareholders entitled to vote with respect to such subject matter.

Any action required or permitted to be taken at a meeting of the Trust Managers, or a committee thereof, may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the Trust Managers or all of the members of the committee, as the case may be.

**Size of Board of Trust Managers and Directors**

The Board of Trust Managers shall be comprised of not less than three nor more than 15 members. The number of Trust Managers may be increased or decreased by a majority of the Trust Managers.

**PMC Commercial (MD)**

Generally, in accordance with the Maryland Bylaws, a stockholder seeking to nominate a director or bring other business before the annual meeting of stockholders must deliver a notice to the secretary not later than 5:00 p.m., Eastern Time, on the 120th day, but not earlier than the 150th day, prior to the first anniversary of the date of mailing of the notice for the prior year's annual meeting of stockholders; provided, however, that in the event that the date of the annual meeting of stockholders is advanced or delayed by more than 30 days from the first anniversary of the date of the prior year's annual meeting of stockholders, notice by the stockholder to be timely must be delivered not earlier than the 150th day prior to the date of such annual meeting of stockholders and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting of stockholders or the 10th day following the day on which public announcement of the date of the annual meeting of stockholders is first made by PMC Commercial (MD). For a stockholder seeking to nominate a candidate for the board of directors, the notice must describe various matters regarding the nominee, including name, address, occupation, number of shares held and other specified matters. For a stockholder seeking to propose other business, the notice must include a description of the proposed business, the reasons for the proposal and other specified matters.

Any action upon which a vote of stockholders is required or permitted may be taken without a meeting or vote of stockholders if a unanimous consent of stockholders which sets forth the action is given in writing or by electronic transmission by each stockholder entitled to vote on the matter.

Any action required or permitted to be taken at any meeting of the board of directors may be taken without a meeting if a consent in writing or electronic transmission to such action is given by each director and is filed in paper or electronic form with the minutes of the board of directors.

The number of directors initially shall be seven. The size of the board of directors may be increased or decreased by a majority of the entire board of directors, but shall never be less than the minimum number required by Maryland law nor more than 25.



**Table of Contents**

**PMC Commercial (TX)**

**Removal of Trust Managers and Directors**

A Trust Manager may be removed with or without cause at a meeting of shareholders called for that purpose by the affirmative vote of holders of not less than two-thirds of the PMC Commercial Common Shares then outstanding and entitled to vote in the election of Trust Managers. No decrease in the number of Trust Managers will have the effect of shortening the term of any incumbent Trust Managers.

**Filling Vacancies**

Any vacancy on the Board of Trust Managers may be filled by a majority of the remaining Trust Managers. Any Trust Manager elected to fill a vacancy shall hold office for the unexpired term of such former Trust Manager.

**Exculpation and Indemnification of Trust Managers, Directors and Officers**

Subject to applicable law, PMC Commercial (TX) must indemnify every person who is or was a Trust Manager, officer, agent or any director, officer or employee of an agent of PMC Commercial (TX) and any person who is or was serving at the request of PMC Commercial (TX) as a director, officer, partner, venture, proprietor, trustee, employee, agent or similar functionary of another entity with respect to all costs and expenses incurred by such person as a result of such person being made or threatened to be made a defendant or respondent in a proceeding by reason of his holding or having held one of the foregoing positions.

**Liability of Shareholders and Stockholders**

PMC Commercial (TX) s existing Bylaws provide that a shareholder shall not be personally or individually

**PMC Commercial (MD)**

Any director, or the entire board of directors, may be removed from office at any time with or without cause by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast generally in the election of directors (subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors). Any decrease in the number of directors will not cause the removal of any director prior to the expiration of such director s term of office.

Any vacancy on the board of directors may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum (subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors). Any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies.

The Maryland Charter contains a provision that limits the liability of PMC Commercial (MD) s directors and officers to PMC Commercial (MD) and its stockholders for money damages to the maximum extent permitted by Maryland law. PMC Commercial (MD) must indemnify (to the maximum extent permitted by Maryland law), and pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, any individual who is a present or former director or officer of PMC Commercial (MD) or a predecessor of PMC Commercial (MD) from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in such capacity as a director or officer. PMC Commercial (MD) may, by the board of directors, by the stockholders by the affirmative vote of at least a majority of all the votes entitled to be cast thereon or by special legal counsel appointed by the board of directors, indemnify, if and to the extent authorized and determined to be appropriate in accordance with applicable law, any person permitted, but not required, to be indemnified under Maryland law by PMC Commercial (MD) or a predecessor of PMC Commercial (MD).

The MGCL provides that a stockholder of a REIT is not personally liable for the obligations of the REIT.

**Table of Contents**

**PMC Commercial (TX)**

liable for any debt, act, omission or obligation incurred by PMC Commercial (TX) or the Trust Managers. In the event a shareholder is held personally liable in such capacity, such shareholder will be entitled to indemnification from PMC Commercial (TX).

**Inspection of Books and Records**

Pursuant to PMC Commercial (TX) s existing Bylaws, the Trust Managers shall determine from time to time whether, and if allowed, when and under what conditions and regulations the accounts and books of PMC Commercial (TX) (except such as may by statute be specifically opened to inspection) shall be open to inspection by the shareholders.

Under the TBOC, a shareholder of record of a REIT for at least six months immediately preceding the shareholder s demand or a holder of record of at least five percent of all of the outstanding shares of a REIT is, on written demand stating a proper purpose, entitled to examine and copy, at a reasonable time, the REIT s relevant books and records of account, minutes and share transfer records.

**Amendments to Declaration of Trust and Charter**

PMC Commercial (TX) s Declaration of Trust may be amended by the affirmative vote of the holders of at least two-thirds of the outstanding shares.

**PMC Commercial (MD)**

In accordance with Section 2-512 of the MGCL, the Maryland Bylaws, the minutes of the proceedings of stockholders, the annual statement of affairs and any voting trust agreements deposited with PMC Commercial (MD) are open to inspection by stockholders at PMC Commercial (MD) s offices during reasonable business hours. Section 2-512 of the MGCL also permits any stockholder to present to any officer or resident agent of PMC Commercial (MD) a written request for a statement showing all stock and securities issued by PMC Commercial (MD) during a specified period of not more than 12 months before the date of the request.

In addition, stockholders of record for at least 6 months of at least 5% of the outstanding stock of any class of PMC Commercial (MD) have the right to inspect the company s accounting books and records and its stock ledger, as permitted by the laws of the State of Maryland, subject to and in accordance with Section 2-513 of the MGCL.

Any amendment to the Maryland Charter will be valid only if declared advisable by the board of directors and approved by the affirmative vote of the stockholders of at least a majority of all the votes entitled to be cast on the matter, except for (i) amendments to the Maryland Charter relating to the removal of directors, restrictions on transfer and ownership of shares, indemnification or the vote required to amend such provisions of the Maryland Charter, which amendments require the affirmative vote of stockholders of at least two-thirds of all the votes entitled to be cast on the matter, or (ii) those amendments to the Maryland Charter permitted under Maryland law or by specific provision in the Maryland Charter.

Under the terms of the Maryland Charter, the board of directors additionally has the power to (i) amend the charter from time to time without stockholder approval so as to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series, (ii) designate and issue one or more classes or series of common stock or preferred stock, with whatever powers, preferences

**Table of Contents**

**PMC Commercial (TX)**

**PMC Commercial (MD)**

and rights as the board may desire, and (iii) classify or reclassify any unissued shares of common stock or preferred stock into other classes or series of stock.

**Bylaw Amendments**

Except as otherwise provided in PMC Commercial (TX) s Declaration of Trust, PMC Commercial (TX) s Bylaws may be amended or repealed or new bylaws may be adopted by the Trust Managers. The indemnification provisions in PMC Commercial (TX) s Bylaws may be amended only by the affirmative vote of the holders of at least two-thirds of the outstanding PMC Commercial Common Shares.

The board of directors has the exclusive power to adopt, amend, alter or repeal any provision of the Maryland Bylaws and to make new bylaws.

**Fees and Expenses**

The PMC Commercial (TX) Declaration of Trust contains a provision requiring the independent Trust Managers to determine at least annually that the total fees and expenses of PMC Commercial (TX) are reasonable and in accordance with its Bylaws.

The Maryland Charter does not require the board of directors to make a reasonable determination with respect to fees and expenses paid by PMC Commercial (MD).

**Limits on Ownership and Transfer of Shares**

No individual, other than an excepted person, may own, directly or indirectly, more than 9.8% of the lesser of the number or value of the outstanding shares. A transfer of shares in violation of this limitation will be null and void with respect to the amount of shares that results in such violation. Any transfer of shares that would (i) create a direct or indirect owner of excess shares (other than an excepted person); (ii) result in the shares being owned by fewer than 100 persons for purposes of the REIT provisions of the Code; (iii) result in PMC Commercial (TX) being closely held within the meaning of Section 856(h) of the Code; or (iv) otherwise result in the termination of PMC Commercial (TX) as a REIT under the REIT provisions of the Code, shall be void *ab initio*.

No individual, corporation, partnership, limited liability company, estate or trust, other than an excepted holder (defined as a stockholder whom the board of directors in its sole discretion exempts from the following ownership limits), may beneficially own or constructively own shares: (i) in excess of 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate outstanding shares of PMC Commercial (MD) stock, excluding any outstanding shares of PMC Commercial (MD) stock not treated as outstanding for federal income tax purposes, or in excess of 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate outstanding shares of PMC Commercial (MD) common stock, excluding any outstanding shares of PMC Commercial (MD) common stock not treated as outstanding for federal income tax purposes; (ii) in the case of an excepted holder, the aggregate ownership for such stockholder approved by the board; (iii) to the extent that such ownership would result in PMC Commercial (MD) being closely held ; (iv) to the extent that such ownership would cause PMC Commercial (MD) stock to be beneficially owned by fewer than 100 persons; (v) to the extent such ownership would cause PMC Commercial (MD) to constructively own 10% or more of the ownership interests in a tenant of PMC Commercial (MD) s real property; (vi) to the extent that such ownership would cause any independent contractor of PMC Commercial (MD) to not be treated as such; or (vii) to the extent such ownership would otherwise cause PMC Commercial

If, in the opinion of the Trust Managers, any proposed transfer of shares would jeopardize the status of PMC Commercial (TX) as a REIT under the Code, the Trust Managers have the right, but not the duty, to refuse to permit such transfer and to take any action to cause such transfer not to occur.

The Board of Trust Managers have exempted the CIM Parties from these limitations so that they may own up to 97.8% of the aggregate outstanding shares of PMC Commercial (TX).

**Table of Contents**

**PMC Commercial (TX)**

The Trust Managers may, from time to time, declare, and PMC Commercial (TX) may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by PMC Commercial (TX) s Declaration of Trust and by law, such dividends to be paid in cash or in property or in shares of beneficial interest of PMC Commercial (TX), except no dividends shall be paid when PMC Commercial (TX) is insolvent or when the payment thereof would render PMC Commercial (TX) insolvent. Subject to the provisions of any class or series outstanding, shareholders have no right to any dividend or declaration unless and until declared by the Trust Managers.

PMC Commercial (TX) s Declaration of Trust provides that shareholders have no appraisal rights.

**PMC Commercial (MD)**

(MD) to fail to qualify as a REIT. The shares transferred in violation of the foregoing restrictions will automatically be transferred to a charitable trust for the benefit of a charitable beneficiary. If this transfer is not effective for any reason, then the transfer shall be null and void and the intended transferee shall acquire no rights in such shares.

The Maryland Charter, subject to certain exceptions, authorizes the board of directors to take such actions as are necessary and desirable to limit any person to beneficial or constructive ownership of no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate outstanding shares of PMC Commercial (MD) stock, excluding any outstanding shares of PMC Commercial (MD) stock not treated as outstanding for federal income tax purposes, and no more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate outstanding shares of PMC Commercial (MD) common stock, excluding any outstanding shares of PMC Commercial (MD) common stock not treated as outstanding for federal income tax purposes.

Following the Reincorporation, it is expected that the board of directors will continue to exempt the CIM Parties from these limitations so that they may own up to 97.8% of the aggregate outstanding shares of PMC Commercial (MD).

**Distributions**

Distributions may be authorized by the board of directors in respect of its outstanding shares of stock and may be paid in cash, property or shares, subject to the provisions of Maryland law and the Maryland Charter. Section 2-311 of the MGCL prohibits PMC Commercial (MD) from making any distribution if, after giving effect to the distribution: (i) it would not be able to pay its indebtedness as the indebtedness becomes due in the usual course of business; or (ii) its total assets would be less than the sum of PMC Commercial (MD) s total liabilities plus, unless the Maryland Charter permits otherwise, the amount that would be needed, if PMC Commercial (MD) were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution.

**Appraisal Rights**

Stockholders shall not be entitled to exercise any rights of an objecting stockholder provided for under Title 3, Subtitle 2 of the MGCL or any successor

---

**Table of Contents**

**PMC Commercial (TX)**

The TBOC provides that a person who contemplates the acquisition of shares in a REIT may commit to act in a specified manner with respect to the shares after the acquisition, including the voting of the shares or the retention or disposition of the shares. To be binding, the commitment must be a contract between the shareholder and the REIT, in writing and be signed by the person acquiring the shares.

The PMC Commercial (TX) Declaration of Trust contains a provision that as to any real property of PMC Commercial (TX), major capital improvements must be made with 15 years of purchase or the property must be sold. Such major improvements must equal or exceed the purchase price of such real property, if the same is unimproved property at the time of purchase or property outside the corporate limits of a city, town or village.

PMC Commercial (TX) may not engage in any business that does not further the purpose of a REIT, as set forth in PMC Commercial (TX) s Declaration of Trust. At least 75% of total assets must be invested in real property, interests in mortgages on real property, shares in other real estate investment trusts, cash and cash items and government securities.

**PMC Commercial (MD)**

statute unless the board of directors, upon the affirmative vote of a majority of the board of directors, determines that such rights apply, with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which holders of such shares would otherwise be entitled to exercise such rights.

**Control Shares**

Sections 3-701 through 3-710 of the MGCL contain a control share acquisition statute. See Certain Material Provisions of Maryland Law and of the Maryland Charter and Bylaws Control Share Acquisitions above. The Maryland Bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of PMC Commercial (MD) stock and, consequently, the control share acquisition statute will not apply to PMC Commercial (MD), unless the board of directors later amends the bylaws so as to modify or eliminate this exempting provision.

**Investment Restrictions**

The Maryland Charter does not set forth any investment restrictions.

**REIT Qualification**

The Maryland Charter contains a provision that if the board of directors determines that it is no longer in the best interests of PMC Commercial (MD) to continue to be qualified as a REIT, the board of directors may revoke or otherwise terminate PMC Commercial (MD) s REIT election.

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Code of Ethics and Related Person Policy**

PMC Commercial has a related party transaction policy which requires a committee of independent Trust Managers to approve related party transactions. In general, the committee will only approve or ratify related party transactions if it determines that such transaction is reasonable and fair to PMC Commercial. A related party transaction is defined as a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which PMC Commercial (including any of its subsidiaries) was, is or will be a participant and the amount involved exceeds \$5,000, and in which a related person had, has or will have a direct or indirect material interest. A related person generally includes: (a) a Trust Manager or nominee for Trust Manager; (b) an executive officer; (c) an immediate family member of a Trust Manager or executive officer, or of any nominee for Trust Manager; (d) a greater than 5% beneficial owner of PMC Commercial Common Shares; and (e) any immediate family member of any such security holder.

Upon the consummation of the Merger, PMC Commercial will not have specific written standards for approving related party transactions with CIM Group, the Manager, the Advisor or their respective affiliates. However, the independent Trust Managers will under the terms of the Master Services Agreement have the right to approve certain actions that may involve a conflict of interest. Further, the Board of Trust Managers will establish a code of business conduct and ethics that applies to PMC Commercial's officers and Trust Managers and the Manager's and the Advisor's officers, directors and personnel when such individuals are acting for PMC Commercial or on PMC Commercial's behalf. Among other matters, PMC Commercial's code of business conduct and ethics will be designed to detect and deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

full, fair, accurate, timely and understandable disclosure in PMC Commercial's SEC reports and other public communications;

compliance with applicable governmental laws, rules and regulations;

prompt internal reporting of violations of the code to appropriate persons identified in the code; and

accountability for adherence to the code.

Any waiver of the code of business conduct and ethics for PMC Commercial's executive officers or Trust Managers may be made only by the Board of Trust Managers or one of its committees and will be promptly disclosed as required by law or share exchange regulations.

**Interests of Trust Managers in Fees Paid to CIM Group**

Shaul Kuba, Richard Ressler and Avi Shemesh, together with their respective heirs and trusts for the benefit of their respective heirs, directly and indirectly, control and are the majority owners of CIM Group and its subsidiaries which receive asset management fees and certain other fees from CIM Urban and will receive master services fees from PMC Commercial and its subsidiaries as contemplated in the Master Services Agreement. CIM Group received \$26.8 million and \$13.8 million in asset management, property management, and development management fees and leasing commissions from CIM Urban and its subsidiaries for the year ended December 31, 2012 and the six months ended June 30, 2013, respectively. In addition, CIM Group received reimbursements for direct and indirect expenses incurred on behalf of CIM Urban and its subsidiaries of \$2.7 million and \$2.3 million for the year ended December 31, 2012 and the six months ended June 30, 2013, respectively. These fees and expenses are payable pursuant to the Investment Management Agreement as well as several property related agreements at the CIM Urban property level.

## **Table of Contents**

### **Master Services Agreement**

PMC Commercial and its subsidiaries will enter into the Master Services Agreement, effective upon consummation of the Merger, pursuant to which the Manager will agree to provide or arrange for other service providers to provide management and administrative services to PMC Commercial and its subsidiaries.

Under the Master Services Agreement, PMC Commercial will appoint the Manager, as the service provider, to provide or arrange for the provision by an appropriate service provider of Base Services. The Manager may, from time to time, appoint an affiliate of the Manager to act as a new Manager under the Master Services Agreement, effective upon the execution of a joinder agreement by the new Manager.

Pursuant to the Master Services Agreement, PMC Commercial will pay a base service fee to the Manager equal to \$1 million per annum (subject to an annual escalation by a specified inflation factor beginning on January 1, 2014). For any quarter in which the independent Trust Managers determine that there is insufficient cash to pay the base service fee as well as the next regular distribution on the PMC Commercial Common Shares, PMC Commercial may elect to pay all or a portion of the base service fee in PMC Commercial Common Shares, subject to certain conditions.

Under the Master Services Agreement, if PMC Commercial would otherwise retain a third party to perform any Transactional Services, the Manager may elect to provide, or have a service provider provide, such Transactional Service. In connection with the provision of a Transactional Service, in addition to the Base Service Fee, PMC Commercial will pay to the applicable service providers a Transaction Fee equal to the fair market rate charged by similar quality service providers providing similar services in the same geographic market and are generally at least as favorable to PMC Commercial as the terms available in an arm's-length transaction with a third party, subject to certain approvals by the independent Trust Managers.

PMC Commercial will also reimburse the Manager for any out-of-pocket fees, costs and expenses incurred in the provision of the management and administration services, including those of any third party. However, PMC Commercial is not required to reimburse the Manager for the salaries and other remuneration of its management, personnel or support staff who carry out any services or functions for PMC Commercial or overhead for such persons. To the extent PMC Commercial directly provides any compensation to any of the Manager's personnel, the base service fee will be reduced by the value of that compensation.

PMC Commercial will reimburse the Manager for all other out-of-pocket fees, costs and expenses incurred in connection with the provision of the services, including those of any third party. Such out-of-pocket fees, costs and expenses are expected to include, among other things: (i) the cost of any insurance required to be obtained by the Manager under the Master Services Agreement; (ii) all insurance costs incurred in connection with the operation of PMC Commercial or any of its subsidiaries' business, including, without limitation, any costs to obtain liability or other insurance to indemnify the Manager and underwriters of any securities of PMC Commercial, but excluding the costs attributable to the insurance that the Manager elects to carry for itself and its personnel; (iii) fees, costs and expenses incurred in connection with the general administration of PMC Commercial; (iv) taxes, licenses and other statutory fees or penalties levied against or in respect of PMC Commercial in respect of services provided; (v) amounts owed by the relevant Manager under indemnification, contribution or similar arrangements; (vi) any other fees, costs and expenses incurred by the relevant Manager that are reasonably necessary for the performance by the relevant Manager of its duties and functions under the Master Services Agreement; and (vii) direct expenses of the Manager allocable to the provision of the services, including without limitation, accounting expenses and information technology expenses associated with any computer software or hardware, electronic equipment or purchased information technology services from third-party vendors that is used for PMC Commercial.

PMC Commercial will also be required to pay or reimburse the Manager for all sales taxes, use taxes, value added taxes, goods and services taxes, harmonized sales taxes, withholding taxes or other similar taxes, customs

---

**Table of Contents**

duties or other governmental charges levied or imposed by reason of the Master Services Agreement or any agreement it contemplates, other than income taxes, corporation taxes, capital taxes or other similar taxes payable by the Manager, which are personal to the Manager.

The Master Services Agreement expires on December 31, 2018; provided, however, that the Master Services Agreement will automatically be renewed for additional one-year terms until terminated in accordance with its terms. The independent Trust Managers may terminate the Master Services Agreement upon written notice of termination to the Manager if any of the following occurs:

the Manager defaults in the performance or observance of any material term, condition or covenant contained in the Master Services Agreement in a manner that results in material harm to PMC Commercial and the default continues unremedied for a period of 60 days after written notice of the breach is given to such Manager;

the Manager engages in any act of fraud, misappropriation of funds or embezzlement against PMC Commercial that results in material harm to PMC Commercial;

the Manager acts, or fails to act, in a manner constituting gross negligence, willful misconduct or reckless disregard in the performance of its obligations under the Master Services Agreement, in each case that results in material harm to PMC Commercial;

a Manager Change of Control (as defined in the Master Services Agreement) occurs that the independent Trust Managers determine is materially detrimental to PMC Commercial and its subsidiaries as a whole; or

certain events relating to the bankruptcy or insolvency of the Manager.

The independent Trust Managers have no right to terminate for any other reason. The Master Services Agreement expressly provides that the Master Services Agreement may not be terminated by PMC Commercial due solely to the poor performance or the underperformance of the PMC Commercial's operations.

The Manager may terminate the Master Services Agreement upon written notice of termination to PMC Commercial if PMC Commercial defaults in the performance or observance of any material term, condition or covenant contained in the Master Services Agreement in a manner that results in material harm to the Manager and the default continues unremedied for a period of 60 days after written notice of the breach is given to PMC Commercial. The Manager may also terminate the Master Services Agreement upon the occurrence of certain events relating to the bankruptcy or insolvency of PMC Commercial.

Under the Master Services Agreement, the Manager will not assume any responsibility other than to provide or arrange for the provision of the services called for thereunder in good faith and will not be responsible for any action that PMC Commercial takes in following or declining to follow the advice or recommendations of the Manager. In addition, under the Master Services Agreement, the Managers and the related indemnified parties will not be liable to PMC Commercial for any act or omission, except for conduct that involved bad faith, fraud, willful misconduct, gross negligence or in the case of a criminal matter, conduct that the indemnified person knew was unlawful. The maximum amount of the aggregate liability of the Manager or any of its affiliates, or of any director, officer, agent, subcontractor, contractor, delegate, member, partner, shareholder, employee or other representative of the Manager or any of its affiliates, will be equal to the base services fee and certain of the transactional service fees previously paid by PMC Commercial in respect of services pursuant to the Master Services Agreement or any other agreement or arrangement contemplated by the Master Services Agreement in the two most recent calendar years. PMC Commercial has agreed to indemnify the Manager, its affiliates, directors, officers, agents, subcontractors, delegates, members, partners, shareholders and employees to the fullest extent permitted by law from and against any claims, liabilities, losses, damages, costs or expenses (including legal fees) incurred by an indemnified person or threatened in connection with PMC Commercial's businesses, investments and activities or in respect of or arising from the Master Services Agreement or the



## **Table of Contents**

services provided by the Manager, except to the extent that the claims, liabilities, losses, damages, costs or expenses are determined to have resulted from the indemnified person's bad faith, fraud or willful misconduct, gross negligence or in the case of a criminal matter, action that the indemnified person knew to have been unlawful.

### **Registration Rights and Lockup Agreement**

The CIM Parties will be entitled to registration rights, subject to certain limitations, with respect to PMC Commercial Common Shares they will receive in the Merger and the PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares they will receive in the Merger pursuant to an agreement to be entered into in connection with the consummation of the Merger. The securities that may be registered pursuant to the agreement are referred to as Registrable Securities. The holders of at least a majority of the Registrable Securities are entitled to request that PMC Commercial file a registration statement under the Securities Act covering the registration of at least 5% of the Registrable Securities then outstanding, or a lesser percent if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$5 million. After PMC Commercial has effected eight registrations and such registration statements have been declared or ordered effective and remained in effect for a period of at least 180 days, PMC Commercial is not obligated to take any action to effect any other registration. PMC Commercial is also not obligated to take any action to effect a registration if PMC Commercial has effected a registration within the preceding three months that has been declared or ordered effective. In addition, holders of the Registrable Securities will have certain piggyback and incidental registrations rights. PMC Commercial will bear the expenses incurred in connection with the filing of any such registration statements.

In accordance with lockup provisions included in the agreement, the CIM Parties will not be permitted to engage in public sales of the PMC Commercial Common Shares they receive in the Merger (and the PMC Commercial Common Shares issuable upon conversion of the PMC Commercial Preferred Shares they receive in the Merger) until after the 12-month anniversary of the consummation of the Merger, without restriction, provided that these restrictions shall not apply with respect to 40 million PMC Commercial Common Shares six months following the Merger with the prior approval of a majority of the independent Trust Managers. The foregoing lockup restrictions do not apply to private sales or transfers of such shares.

### **PLAN OF DISTRIBUTION**

Simultaneously with the consummation of the Merger, CIM REIT will sell an aggregate of approximately 10,000 of the PMC Commercial Preferred Shares to be issued to CIM REIT pursuant to the terms of the Merger Agreement to approximately 100 employees of CIM Group and/or its affiliates and/or related parties of CIM REIT.

Each such employee or related party will pay CIM REIT \$35.00 per PMC Commercial Preferred Share (each such share is convertible into seven PMC Commercial Common Shares). CIM REIT may loan to each such employee or related party all or a portion of the purchase price payable by such employees or related party. Any such loans will mature on the one-year anniversary of the loan, subject to a one-year extension at the option of CIM REIT, and will bear interest at 2% per annum. Such loans will be full recourse and will be secured by a pledge of the underlying PMC Commercial Preferred Shares.

### **NO DISSENTERS' RIGHTS**

PMC Commercial shareholders do not have the right to exercise dissenters' rights with respect to any matter to be voted upon at the PMC Commercial special meeting.

**Table of Contents**

**LEGAL MATTERS**

Locke Lord LLP will pass upon the validity of the proposed issuance of PMC Commercial Common Shares and PMC Commercial Preferred Shares pursuant to the Merger Agreement. DLA Piper LLP (US) has acted as counsel for CIM REIT and will pass upon certain U.S. federal income tax consequences to CIM REIT as a result of the Merger and certain other legal matters related to this proxy statement/prospectus.

**EXPERTS**

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) of PMC Commercial Trust incorporated in this proxy statement/prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2012 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of CIM Urban Partners L.P. and its subsidiaries as of December 31, 2012 and 2011, and for the years ended December 31, 2012, 2011 and 2010 included in this proxy statement/prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein. Such financial statements are included in reliance upon the report of such firm given upon their authority as experts in auditing and accounting.

**DELIVERY OF DOCUMENTS TO SHAREHOLDERS**

Pursuant to the rules of the SEC, PMC Commercial and services that it employs to deliver communications to its shareholders are permitted to deliver to two or more shareholders sharing the same address a single copy of the proxy statement/prospectus. Upon written or oral request, PMC Commercial will deliver a separate copy of the proxy statement/prospectus to any shareholder at a shared address to which a single copy of the proxy statement/prospectus was delivered and who wishes to receive separate copies in the future. Shareholders receiving multiple copies of the proxy statement/prospectus may likewise request that PMC Commercial deliver single copies of the proxy statement/prospectus in the future. Shareholders may notify PMC Commercial of their requests by calling or writing PMC Commercial at its principal executive offices at 17950 Preston Road, Suite 600, Dallas, Texas 75252.

**WHERE YOU CAN FIND MORE INFORMATION**

PMC Commercial has filed with the SEC a registration statement on Form S-4, as amended, under the Securities Act with respect to the securities offered by this proxy statement/prospectus. This proxy statement/prospectus does not contain all of the information included in the registration statement. For further information pertaining to PMC Commercial and its securities, you should refer to the registration statement and to its exhibits. Whenever reference is made in this proxy statement/prospectus to any of PMC Commercial's contracts, agreements or other documents, the references are not necessarily complete, and you should refer to the annexes to the proxy statement/prospectus and the exhibits attached to the registration statement for copies of the actual contract, agreement or other document.

PMC Commercial is subject to the information and periodic reporting requirements of the Exchange Act and will file annual, quarterly and current reports, proxy statements and other information with the SEC. PMC Commercial files reports, proxy statements and other information with the SEC as required by the Exchange Act. You can read PMC Commercial's SEC filings, including PMC Commercial's registration statement and PMC

**Table of Contents**

Commercial's proxy statement, over the internet at the SEC's website at www.sec.gov. You may also read and copy any document PMC Commercial files with the SEC at the SEC public reference room located at 100 F Street, N.E., Room 1580 Washington, D.C., 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of the materials described above at prescribed rates by writing to the SEC, Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

The SEC allows PMC Commercial to incorporate by reference information into this proxy statement/prospectus, which means that PMC Commercial can disclose important information to you by referring you to another document filed separately with the SEC. This proxy statement/prospectus incorporates by reference the documents set forth below that PMC Commercial has previously filed with the SEC. These documents contain important information about PMC Commercial and its finances.

<b>PMC Commercial SEC Filings (File No. 1-13610)</b>	<b>Period</b>
Annual Report on Form 10-K	Year ended December 31, 2012
Quarterly Reports on Form 10-Q	Quarter ended March 31, 2013
	Quarter ended June 30, 2013
Current Reports on Form 8-K	Dated March 6, 2013, March 18, 2013, May 5, 2013, June 19, 2013, July 8, 2013 (but only with respect to the information appearing under Item 1.01 and Exhibits 2.1, 10.1, 10.2, 10.3 and 10.4 thereto), July 19, 2013, August 9, 2013 (two filings) and August 30, 2013
Definitive Proxy Statement on Schedule 14A	Filed on April 29, 2013
Registration Statement on Form 8-A/A	Dated January 31, 1995, setting forth the description of PMC Commercial Common Shares, including any amendments or reports filed for the purpose of updating such description
Registration Statement on Form 8-A	Dated [                    ], setting forth the description of PMC Commercial Preferred Shares, including any amendments or reports filed for the purpose of updating such description

The information incorporated by reference is deemed to be part of this proxy statement/prospectus. Any statement contained in a document incorporated or deemed to be incorporated by reference in this proxy statement/prospectus will be deemed modified, superseded or replaced for purposes of this proxy statement/prospectus to the extent that a statement contained in this proxy statement/prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference in this proxy statement/prospectus modifies, supersedes or replaces such statement. Any statement so modified, superseded or replaced will not be deemed, except as so modified, superseded or replaced, to constitute a part of this proxy statement/prospectus.

If you would like additional copies of this proxy statement/prospectus or if you have questions about the Merger or the proposals to be presented at the special meeting, you should contact PMC Commercial by telephone or in writing:

PMC Commercial Trust  
 17950 Preston Road Suite 600  
 Dallas, Texas 75252  
 Attn: Investor Relations  
 (972) 349-3235

**Table of Contents**

You may also obtain these documents by requesting them in writing or by telephone from PMC Commercial's proxy solicitation agent at the following address and telephone number:

[            ]

[            ]

[            ]

[            ]

If you are a shareholder of PMC Commercial and would like to request documents, please do so by [            ], 2013 to receive them before the PMC Commercial special meeting of shareholders. If you request any documents from PMC Commercial, PMC Commercial will mail them to you by first class mail, or another equally prompt means.

All information contained or incorporated by reference in this proxy statement/prospectus relating to PMC Commercial and its subsidiaries has been supplied by PMC Commercial, and all such information relating to CIM Group, CIM REIT, CIM Urban and their affiliates has been supplied by CIM REIT. Information provided by either PMC Commercial or CIM REIT does not constitute any representation, estimate or projection of the other party.

This document is a prospectus of PMC Commercial and a proxy statement of PMC Commercial for PMC Commercial's special meeting of shareholders. PMC Commercial has not authorized anyone to give any information or make any representation about the Merger, PMC Commercial or CIM Urban that is different from, or in addition to, that contained in this proxy statement/prospectus or in any of the materials that PMC Commercial has incorporated by reference into this proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

**Table of Contents**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**CIM Urban Partners, LP and Subsidiaries**

	<b>Page</b>
<b>Consolidated Financial Statements as of December 31, 2012 and 2011 and for the Years Ended December 31, 2012, 2011 and 2010</b>	
<u>Independent Auditors Report</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-4
<u>Consolidated Statements of Equity</u>	F-5
<u>Consolidated Statements of Cash Flows</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7
<b>Condensed Consolidated Interim Financial Statements for the Three and Six-Month Periods Ended June 30, 2013 and 2012 (Unaudited)</b>	
<u>Condensed Consolidated Balance Sheets</u>	F-25
<u>Condensed Consolidated Statements of Operations</u>	F-26
<u>Condensed Consolidated Statements of Equity</u>	F-27
<u>Condensed Consolidated Statements of Cash Flows</u>	F-28
<u>Notes to Condensed Consolidated Interim Financial Statements</u>	F-29

**Table of Contents**

**INDEPENDENT AUDITORS' REPORT**

To the Partners of

CIM Urban Partners, LP:

We have audited the accompanying consolidated financial statements of CIM Urban Partners, LP and Subsidiaries (the Partnership), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2012, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audits. We conducted our audits 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 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 auditor's 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 Partnership'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 Partnership'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 the Partnership as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Los Angeles, California

March 18, 2013

**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>ASSETS</b>		
Investments in real estate net	\$ 1,676,823,643	\$ 1,710,502,553
Cash and cash equivalents	31,513,557	46,236,785
Restricted cash	8,831,293	8,808,323
Accounts receivable net	8,365,697	6,161,537
Note receivable net	40,100,000	39,290,288
Deferred rent receivable	42,124,914	28,991,122
Acquired below-market ground lease net	10,682,847	10,822,644
Acquired above-market leases net	1,852,540	2,855,778
Acquired in-place leases net	9,549,509	14,937,951
Deferred charges net	33,729,759	30,948,807
Prepaid expenses and other assets net	7,138,732	16,452,913
<b>TOTAL ASSETS</b>	<b>\$ 1,870,712,491</b>	<b>\$ 1,916,008,701</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Mortgages payable	\$ 315,631,338	\$ 324,536,559
Unsecured revolving line of credit	30,000,000	
Accounts payable and accrued expenses	20,927,615	30,672,033
Acquired below-market leases net	11,858,170	15,671,961
Security deposits, deferred revenues, and other liabilities	20,157,394	20,246,612
Asset management fees payable to related party	5,206,426	4,864,114
Due to related parties	858,730	496,838
<b>Total liabilities</b>	<b>404,639,673</b>	<b>396,488,117</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>		
<b>EQUITY:</b>		
Partners equity:		
Limited partners	1,463,273,824	1,516,671,768
General partner	1,000	1,000
<b>Total partners equity</b>	<b>1,463,274,824</b>	<b>1,516,672,768</b>
Noncontrolling interests	2,797,994	2,847,816
<b>Total equity</b>	<b>1,466,072,818</b>	<b>1,519,520,584</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,870,712,491</b>	<b>\$ 1,916,008,701</b>

See notes to consolidated financial statements.





**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****CONSOLIDATED STATEMENTS OF OPERATIONS****YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010**

	2012	2011	2010
<b>REVENUES:</b>			
Rent	\$ 181,041,714	\$ 160,603,332	\$ 156,781,398
Expense reimbursements	9,194,050	8,309,705	14,149,961
Hotel	36,858,300	34,694,817	32,869,126
Interest and fees	3,890,528	6,119,270	4,517,225
Other income	1,528,808	3,565,723	2,344,035
<b>Total revenues</b>	<b>232,513,400</b>	<b>213,292,847</b>	<b>210,661,745</b>
<b>EXPENSES:</b>			
Rental operating	74,006,380	70,252,463	71,634,378
Hotel operating	25,582,215	24,833,587	23,800,314
Asset management fees to related party	20,923,852	19,326,284	17,656,999
Interest	18,856,150	18,127,772	17,057,803
General and administrative	2,772,460	2,065,710	1,200,872
Acquisition related costs	632,332	3,574,152	2,562,148
Depreciation and amortization	69,942,668	68,803,511	71,204,104
<b>Total expenses</b>	<b>212,716,057</b>	<b>206,983,479</b>	<b>205,116,618</b>
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>19,797,343</b>	<b>6,309,368</b>	<b>5,545,127</b>
<b>DISCONTINUED OPERATIONS:</b>			
Income from discontinued operations			672,807
Gain on sale of real estate			7,446,725
<b>NET INCOME FROM DISCONTINUED OPERATIONS</b>			<b>8,119,532</b>
<b>NET INCOME</b>	<b>19,797,343</b>	<b>6,309,368</b>	<b>13,664,659</b>
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(208,504)</b>	<b>(187,464)</b>	<b>(137,070)</b>
<b>NET INCOME ATTRIBUTABLE TO PARTNERS</b>	<b>\$ 19,588,839</b>	<b>\$ 6,121,904</b>	<b>\$ 13,527,589</b>

See notes to consolidated financial statements.

**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****CONSOLIDATED STATEMENTS OF EQUITY****YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010**

	Partners			Noncontrolling Interests	Total
	Limited Partner	General Partner	Total		
BALANCE January 1, 2010	\$ 1,627,421,709	\$ 1,000	\$ 1,627,422,709	\$ 2,547,648	\$ 1,629,970,357
Contributions	186,181		186,181		186,181
Distributions	(62,061,794)		(62,061,794)	(212,690)	(62,274,484)
Net income	13,527,589		13,527,589	137,070	13,664,659
BALANCE December 31, 2010	1,579,073,685	1,000	1,579,074,685	2,472,028	1,581,546,713
Contributions				440,000	440,000
Distributions	(68,523,821)		(68,523,821)	(251,676)	(68,775,497)
Net income	6,121,904		6,121,904	187,464	6,309,368
BALANCE December 31, 2011	1,516,671,768	1,000	1,516,672,768	2,847,816	1,519,520,584
Distributions	(72,986,783)		(72,986,783)	(258,326)	(73,245,109)
Net income	19,588,839		19,588,839	208,504	19,797,343
BALANCE December 31, 2012	\$ 1,463,273,824	\$ 1,000	\$ 1,463,274,824	\$ 2,797,994	\$ 1,466,072,818

See notes to consolidated financial statements.

**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****CONSOLIDATED STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010**

	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 19,797,343	\$ 6,309,368	\$ 13,664,659
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of real estate			(7,446,725)
Deferred rent	(13,133,792)	(15,912,255)	(6,274,269)
Depreciation and amortization	69,942,668	68,803,511	72,139,244
Amortization of above- and below-market rent	(2,810,553)	(2,899,094)	(4,120,117)
Amortization of below-market ground lease	139,797	139,797	139,797
Straight line rent below-market ground lease	1,174,988	1,174,988	1,203,502
Amortization of deferred loan costs	657,102	359,724	618,447
Amortization of premiums and discounts on assumed mortgages payable	(807,405)	(895,043)	(257,743)
Amortization of discount on note receivable	(809,712)	(1,388,076)	(1,388,076)
Bad debt expense	78,799	300,369	452,592
Changes in operating assets and liabilities:			
Accounts receivable	(2,523,613)	3,705,829	134,040
Interest accrued on note receivable	240,654	(505,701)	
Prepaid expenses and other assets	8,920,564	(8,588,725)	1,427,221
Accounts payable and accrued expenses	(5,887,208)	4,387,805	2,302,742
Deferred leasing costs	(7,705,542)	(12,904,629)	(9,147,756)
Security deposits, deferred revenues, and other liabilities	(1,264,206)	4,321,021	1,364,166
Asset management fees payable to related party	342,312	532,390	570,447
Due to related parties	361,892	(701,602)	(350,485)
<b>Net cash provided by operating activities</b>	<b>66,714,088</b>	<b>46,239,677</b>	<b>65,031,686</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions of real estate properties and mortgage note receivable	(1,050,000)	(44,979,545)	(150,703,875)
Additions to investments in real estate	(27,936,866)	(51,726,237)	(19,374,432)
Net proceeds from sale of real estate			28,683,754
Restricted cash	(22,970)	(3,926,703)	7,354,319
<b>Net cash used in investing activities</b>	<b>(29,009,836)</b>	<b>(100,632,485)</b>	<b>(134,040,234)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payment of mortgages payable	(8,097,816)	(56,906,837)	(140,229,268)
Proceeds from mortgages payable		120,757,000	
Proceeds from unsecured revolving line of credit	30,000,000		
Deferred loan costs	(1,084,555)	(1,256,195)	(916,951)
Partner contributions			186,181
Partner distributions	(72,986,783)	(68,523,821)	(62,061,794)
Noncontrolling interests contributions		440,000	
Noncontrolling interests distributions	(258,326)	(251,676)	(212,690)
<b>Net cash used in financing activities</b>	<b>(52,427,480)</b>	<b>(5,741,529)</b>	<b>(203,234,522)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(14,723,228)</b>	<b>(60,134,337)</b>	<b>(272,243,070)</b>
<b>CASH AND CASH EQUIVALENTS:</b>			

## Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

Beginning of year	46,236,785	106,371,122	378,614,192
End of year	\$ 31,513,557	\$ 46,236,785	\$ 106,371,122
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid during the year for interest	\$ 18,808,959	\$ 18,466,177	\$ 17,114,255
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Additions to investments in real estate included in accounts payable and accrued expenses	\$ 4,328,586	\$ 7,845,796	\$ 6,347,335
Seller financing and assumed debt in connection with acquisitions of real estate properties and real estate mortgage note receivable	\$	\$ 20,000,000	\$ 49,608,469
Foreclosure on real estate mortgage note receivable	\$	\$ 66,029,545	\$
Additions to loan costs included in accounts payable and accrued expenses	\$	\$ 340,000	\$

See notes to consolidated financial statements.

**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010****1. ORGANIZATION AND OPERATIONS**

CIM Urban Partners, LP and subsidiaries (the Partnership, we, us, or our), a Delaware limited partnership, was formed pursuant to the Agreement of Limited Partnership dated February 4, 2005, as amended and restated, and subsequently amended (the Partnership Agreement). The Partnership invests in substantially stabilized real estate assets located in high-population density, high-barrier-to-entry urban markets, which include traditional downtown areas and suburban main streets that lie within the metropolitan areas of the United States of America. The partners of the Partnership are CIM Urban Partners GP, LLC ( REIT GP ), a California limited liability company, as the general partner, and CIM Urban REIT, LLC ( REIT ), a Delaware limited liability company, as the limited partner. REIT GP contributed \$1,000 of capital, with the REIT contributing the balance. Profits and losses are allocated to the partners, and cash is distributed in accordance with the Partnership Agreement.

The term of the Partnership expires upon the first to occur: (a) an election to dissolve the Partnership is made by REIT GP with the consent of the REIT, as defined, (b) an election to dissolve the Partnership is made by REIT GP after the reduction to cash of all or substantially all of the Partnership's investments, or (c) subject to the provisions of the Partnership Agreement, the bankruptcy, dissolution, removal, or other withdrawal of REIT GP or the sale, transfer, or assignment by REIT GP of its interest in the Partnership.

The REIT was formed pursuant to the Limited Liability Company Agreement dated February 4, 2005, as amended and restated, and subsequently amended (the REIT Agreement) for the purpose of investing in limited partnership interests in the Partnership. The REIT has two classes of ownership interests outstanding and authorized for issuance: Class A and Class B, each of which is represented by respective membership units. The subscribed Class A members of the REIT are CIM Urban Sponsor, LLC, a California limited liability company, and an affiliate of REIT GP, and various unrelated institutional investors, primarily tax-exempt entities.

The Class B members of the REIT are CIM Group, LLC, an affiliate of REIT GP, the general partner of the Partnership, and various unrelated parties.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ).

**Principles of Consolidation** The consolidated financial statements include the accounts of the Partnership and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

**Investments in Real Estate** Real estate acquisitions are recorded at cost as of the date of closing. Costs related to the acquisition of properties are expensed as incurred. Investments in real estate are stated at depreciated cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives as follows:

Buildings and improvements	15 - 40 years
Furniture, fixtures, and equipment	3 - 5 years

Tenant improvements

Shorter of the useful lives or the  
terms of the related leases

F-7

## **Table of Contents**

Improvements and replacements are capitalized when they extend the useful life, increase capacity, or improve the efficiency of the asset. Ordinary repairs and maintenance are expensed as incurred.

Investments in real estate are evaluated for impairment on an annual basis, or whenever events or changes in circumstances indicate 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 to the future net cash flows, undiscounted and without interest, 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 estimated fair value of the assets. The estimated fair value of the asset group identified for step two testing is based on either the income approach with market discount rate, terminal capitalization rate and rental rate assumptions being most critical, or on the sales comparison approach to similar properties. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Investments in real estate are evaluated for impairment on an annual basis. No impairment of long-lived assets was recognized during the years ended December 31, 2012, 2011, and 2010.

**Note Receivable** Note receivable represents a mortgage note investment secured by a first mortgage on a hotel located near the Los Angeles Airport. The note pays interest monthly at the London InterBank Offered Rate (LIBOR) plus 2.35%, with a LIBOR floor of 4.75%. For the years ended December 31, 2012, 2011, and 2010, the interest rate was 7.10%. The note was acquired at a discount of \$6,015,000, which was amortized from note acquisition through August 9, 2012. Discount amortization of \$809,712, \$1,388,076, and \$1,388,076 was recorded in interest income for the years ended December 31, 2012, 2011, and 2010, respectively. The note matured on August 9, 2012, and was extended through August 9, 2013. At maturity, the principal balance becomes due and payable. The loan went into default in December 2011, and in February 2012, the borrower and the Partnership agreed on a modified payment schedule for the period from November 1, 2011 through April 30, 2012. The deferred amounts accrued interest at a 5.00% default interest premium. All deferred amounts, together with interest and late charges, were collected on May 31, 2012.

In May 2011, the Partnership acquired a first mortgage note receivable, secured by a residential condominium project located in Manhattan, New York. The Partnership foreclosed on the property in October 2011 and took title to the property. The mortgage note investment basis was transferred to the property components at their relative fair values on title transfer.

The Partnership recognized interest income and fees, inclusive of discount amortization, related to the two mortgage notes of \$3,034,171, \$5,928,825, and \$4,381,492 during the years ended December 31, 2012, 2011, and 2010, respectively. At December 31, 2012 and 2011, the Partnership has recorded interest receivable related to the hotel first mortgage of \$265,047 and \$505,701, respectively, included in accounts receivable. At December 31, 2011, included in prepaid expenses and other assets is a total of \$8,409,220 in funds held by the receiver and deposits held in escrow (see Note 3).

On an annual basis, and more frequently if indicators exist, we evaluate the collectability of our notes receivable. Our evaluation of collectability involves judgment, estimates, and a review of the underlying collateral and borrowers' business models and future operations in accordance with ASC 450-20, Contingencies - Loss Contingencies and ASC 310-10, Receivables. As of December 31, 2012 and 2011, no impairments of notes receivable were recorded.

**Cash and Cash Equivalents** Cash and cash equivalents include short-term liquid investments with initial maturities of three months or less.

**Restricted Cash** The loan and hotel management agreements provide for depositing into restricted accounts reserves for property taxes, insurance, and capital expenditures.

---

**Table of Contents**

**Deferred Charges** Deferred charges consist of deferred loan costs and deferred leasing costs. Deferred loan costs, which represent legal and third-party fees incurred in connection with our borrowing activities, are capitalized and amortized to interest expense on a straight-line basis over the life of the related loan, approximating the effective interest method. Deferred loan costs of \$5,352,722 and \$4,608,167 are presented net of accumulated amortization of \$2,835,509 and \$2,178,407 at December 31, 2012 and 2011, respectively. Deferred leasing costs, which represent lease commissions and other direct costs associated with the acquisition of tenants, are capitalized and amortized on a straight-line basis over the terms of the related leases. Deferred leasing costs of \$44,295,999 and \$36,590,457 are presented net of accumulated amortization of \$13,083,453 and \$8,071,410 at December 31, 2012 and 2011, respectively.

**Discontinued Operations and Real Estate Held for Sale** In a period in which a property has been disposed of or is classified as held for sale, the consolidated statements of operations for current and prior periods report the results of operations of the property as discontinued operations.

At such time as a property is deemed held for sale, such property is carried at the lower of (1) its carrying amount or (2) fair value less costs to sell. In addition, a property being held for sale ceases to be depreciated. The Partnership classifies operating properties as property held for sale in the period in which all of the criteria related to discontinued operations are met.

**Noncontrolling Interests** Noncontrolling interests represents interests in the various properties not owned by the Partnership.

**Purchase Accounting for Acquisition of Investments in Real Estate** The Partnership applies the acquisition method to all acquired real estate investments. The purchase consideration of the real estate is recorded at fair value to the acquired tangible assets, consisting primarily of land, site improvements, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases, value of tenant relationships, and acquired ground leases, based in each case on their fair values. Loan premiums, in the case of above-market rate loans, or loan discounts, in the case of below-market loans, are recorded based on the fair value of any loans assumed in connection with acquiring the real estate.

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 (or acquired ground lease if the land is subject to a ground lease), site improvements, and building and tenant improvements based on management's determination of the relative fair values of these assets. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering 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, legal, and other related costs.

In allocating the purchase consideration of the identified intangible assets and liabilities of an acquired property, the fair value of the above-market and below-market component of acquired in-place leases are recorded based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases measured over a period equal to the remaining noncancelable term of the lease and, for below-market leases, over a period equal to the initial term plus any below-market, fixed-rate renewal periods. Acquired above-market and below-market leases are amortized and recorded to rental income over the initial terms of the prospective leases.



## **Table of Contents**

The aggregate value of other acquired intangible assets, consisting of in-place leases and tenant relationships, is measured by the estimated cost of operations during a theoretical lease-up period to replace in-place leases, including lost revenues and any unreimbursed operating expenses, plus an estimate of deferred leasing commissions for in-place leases. The value of in-place leases is amortized to expense over the remaining noncancelable periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written-off.

For hotels, an intangible value was assigned to expected revenues from advance bookings, which were calculated based on discounted income, and to franchise affiliation, which were calculated based on the difference between the net projected income in the year of acquisition and an estimate of income without the franchise. Advance bookings were fully amortized as of December 31, 2012 and 2011. Franchise affiliation fees of \$1,742,888 and \$2,136,505 as of December 31, 2012 and 2011, respectively, are grouped with prepaid expenses and other assets. Advance bookings are amortized over one to three years, and franchise fee affiliation is amortized over 10 years. The franchise fee affiliation is fully amortized once the hotel is no longer affiliated with the franchise.

A tax abatement intangible asset was recorded for a property acquired in 2011, based on an approval for a property tax abatement, due to the location of the property. The tax abatement intangible asset is amortized over eight years. As of December 31, 2012 and 2011, \$3,604,561 and \$4,155,917 was recorded in prepaid expenses and other assets, respectively.

**Revenue Recognition** All leases are classified as operating leases, and minimum rents are recognized on a straight-line basis over the terms of the leases. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is recorded as deferred rent.

Reimbursements from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes, insurance, and other recoverable costs, are recognized as revenue in the period the expenses are incurred. Tenant reimbursements are recognized and presented on a gross basis, when the Partnership is the primary obligor with respect to incurring expenses and with respect to having the credit risk.

In addition to minimum rents, certain leases provide for additional rents based upon varying percentages of tenants' sales in excess of annual minimums. Percentage rent is recognized once lessees' specified sales targets have been met. Included in rental revenues for the years ended December 31, 2012, 2011, and 2010, is \$161,836, \$127,846, and \$164,205, respectively, of percentage rent.

Hotel room sales are recognized upon daily occupancy. Other hotel revenues are recognized as earned upon facility use or food and beverage consumption.

**Accounts Receivable** Accounts receivable are carried net of the allowances for uncollectible amounts. Management's determination of the adequacy of these allowances is based primarily upon evaluation of historical loss experience, individual receivables, current economic conditions, and other relevant factors. The allowances are increased or decreased through the provision for bad debts. The allowance for uncollectible accounts receivable was \$143,941 and \$568,405 as of December 31, 2012 and 2011, respectively.

**Premiums and Discounts on Notes Payable** Premiums and discounts on notes payable are accreted or amortized on a straight-line basis over the respective term of the loan to interest expense, which approximates the effective interest method.

**Income Taxes** Under applicable federal and state income tax rules, the Partnership is generally not subject to income taxes. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. Income or loss is included in the income tax returns of the partners. The Partnership files income tax returns in the United States federal and state jurisdictions. The Partnership is

## **Table of Contents**

generally no longer subject to tax examination for state purposes for tax years 2007 and prior and for United States federal purposes for tax years 2008 and prior.

Accounting Standards Codification (ASC) 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Partnership's tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current period. The Partnership has reviewed all open tax years and concluded that the application of ASC 740 resulted in no material effect to the Partnership's consolidated financial position or results of operations.

**Consolidation Considerations for Our Investments in Real Estate** ASC 810-10, *Consolidation*, addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights that would require the entity to be consolidated. We analyze our investments in real estate in accordance with this accounting standard to determine whether they are variable interest entities, and if so, whether we are the primary beneficiary. Our judgment with respect to our level of influence or control over an entity and whether we are the primary beneficiary of a variable interest entity involves consideration of various factors, including the form of our ownership interest, our voting interest, the size of our investment (including loans), and our ability to participate in major policy making decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in our consolidated financial statements.

**Use of Estimates** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Concentration of Credit Risk** Financial instruments that subject the Partnership to credit risk consist primarily of cash and cash equivalents. The Partnership has its cash and cash equivalents on deposit with high-quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Management routinely assesses the financial strength of its tenants and, as a consequence, believes that its accounts receivable credit risk exposure is limited.

The Partnership's properties are located throughout the United States. The majority of the Partnership's revenues are earned from properties located in Washington, D.C., and California. The Partnership is subject to risks incidental to the ownership and operation of commercial real estate. These include, among others, the risks normally associated with changes in the general economic climate in the communities in which the Partnership operates, trends in the real estate industry, change in tax laws, interest rate levels, availability of financing, and the potential liability under environmental and other laws.

**Fair Value of Financial Instruments** The Partnership discloses the fair value of its mortgage notes payable. The Partnership determines the fair value of mortgage notes payable by performing discounted cash flow analyses using an appropriate market discount rate. The Partnership calculates the market discount rate by obtaining period-end treasury rates for maturities that correspond to the maturities of its debt and then adding an appropriate credit spread. These credit spreads take into account factors, such as the Partnership's credit standing, the maturity of the debt, whether the debt is secured or unsecured, and the loan-to-value ratios of the debt. The carrying amounts of the Partnership's cash and cash equivalents, restricted cash, notes receivable, accounts receivable and accounts payable, and accrued expenses approximate their values due to their short-term maturities.

## Table of Contents

**Segment Information** Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate in three business segments: the acquisition, redevelopment, ownership and management of office real estate, multifamily real estate, and hospitality real estate. The products for our office segment primarily include rental of office space and other tenant services, including tenant reimbursements, parking, and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services. The products of our hotel segment include revenues generated from the operations of hotel properties, rental income generated from a garage located directly across the street from one of the hotels, and investments in notes receivable secured by hotel properties.

**Subsequent Events** In preparing the accompanying consolidated financial statements, management has evaluated subsequent events through March 18, 2013, the date the consolidated financial statements were available to be issued. The Partnership believes that the disclosures contained herein are adequate to prevent the information presented from being misleading.

**Recently Issued Accounting Pronouncements** In October 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2012-04, *Technical Corrections and Improvements*, which makes certain technical corrections and conforming fair value amendments to the FASB ASC. The amendments affect various ASC topics and apply to all reporting entities within the scope of those topics. These provisions of the amendments are effective upon issuance, except for amendments that are subject to transition guidance, which will be effective for fiscal periods beginning after December 15, 2012. The provisions of ASU No. 2012-04 are not expected to have a material impact on our consolidated financial statements

Effective January 1, 2012, we adopted the provisions of ASU No. 2011-04, *Amendment to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amended ASC Topic 820, *Fair Value Measurement*. The objective of this guidance is to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. The guidance also requires expanded fair value disclosures related to Level 3 financial instruments and Level 3 financial instrument transfers. The guidance does not require any new fair value measurements. The adoption of this guidance did not have a material impact on our consolidated financial statements or notes to our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which amended ASC Topic 220, *Comprehensive Income*. ASU No. 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires that all nonowner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB deferred the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the consolidated financial statements. ASU No. 2011-05 requires retrospective application and will be effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU No. 2011-05 did not have a significant impact on our disclosures and presentation of comprehensive income.

Other accounting standards updates not effective until after December 31, 2012, are not expected to have a significant effect on the Partnership's consolidated financial statements.

**Table of Contents****3. INVESTMENTS IN REAL ESTATE**

Investments in real estate as of December 31, 2012 and 2011, consist of the following:

	2012	2011
Land	\$ 315,398,311	\$ 315,398,311
Land improvements	27,084,521	27,069,459
Buildings and improvements	1,427,687,961	1,416,101,184
Furniture, fixtures, and equipment	17,582,164	16,988,156
Tenant improvements	169,073,001	153,621,296
Work in progress	10,222,295	12,400,191
	1,967,048,253	1,941,578,597
Accumulated depreciation	(290,224,610)	(231,076,044)
Net investments in real estate	\$ 1,676,823,643	\$ 1,710,502,553

The fair value of the real estate acquired is recorded to the acquired tangible assets, consisting of land, site improvements, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above- and below-market leases and the value of in-place leases and tenant relationships, if any, based in each case on their respective fair values. Loan premiums, in the case of above-market rate loans, or loan discounts, in the case of below-market loans, are recorded based on the fair value of any loans assumed in connection with acquiring the real estate. Above-market ground leases are recorded based on the respective fair value of the ground leases. Effective January 1, 2009, in accordance with ASC 805, *Business Combinations*, the Partnership began expensing transaction costs related to acquisitions.

The Partnership acquired an office property in 2005 for approximately \$120.8 million, paying approximately \$41 million in cash and assuming two mortgage loans totaling \$79.8 million. The \$41 million cash portion of the purchase price was paid by the Partnership making (a) an approximately \$1 million equity investment in the existing property owner and (b) a loan to the existing property owner of approximately \$40 million, which was converted to equity in 2012, and the Partnership owns 100% of the property directly. The Partnership purchased another office property in 2006 for approximately \$76.5 million, paying approximately \$42.3 million in cash and assuming a \$34.2 million mortgage loan. The \$42.3 million cash portion of the purchase price was paid by the Partnership making (a) an approximately \$850,000 equity investment in the existing property owner and (b) a loan to the existing owner of approximately \$41.4 million, which was convertible to equity after proper notice given by the Partnership. During the year ended December 31, 2011, the loan was converted to equity, and the Partnership owns 100% of the property directly. Prior to the conversion, the properties were included in the consolidated financial statements of the Partnership as variable interest entities. Real estate investments and related mortgages payable of these consolidated variable interest entities of \$86,228,434 and \$68,906,472, respectively, at December 31, 2011, are included in the consolidated balances sheets of the Partnership.

In May 2011, the Partnership acquired a first mortgage note receivable, secured by a residential condominium project located in Manhattan, New York, in part with seller financing of \$20 million, which was repaid prior to December 31, 2011. The loan was in default since it matured in August 2009, and the property was in receivership at December 31, 2011. The Partnership foreclosed on the property in October 2011 and took title to the property. The Partnership is operating the property as an apartment building. In connection with the foreclosure and the acquisition of the property, the Partnership incurred \$3,218,587 in transfer taxes and closing costs that were recorded in acquisition-related costs expense for the year ended December 31, 2011. For the year ended December 31, 2011, interest income of \$1,382,255 was earned prior to the foreclosure of the property. Subsequent to December 31, 2011, the Partnership submitted motions to discharge the receiver and release cash funds held by the receiver and release deposits held in an escrow account that the Partnership acquired at purchase. At December 31, 2011, included in prepaid expenses and other assets is a total of

**Table of Contents**

\$8,409,220 in funds held by the receiver and deposits held in escrow. In March 2012, the motion to terminate the receivership was approved, and the outstanding balance was fully collected.

During 2010, the Partnership acquired a portfolio of three apartment buildings located in the Uptown, Dallas submarket, an apartment building located in the Memorial Hills, Houston submarket and, two office buildings, a surface parking lot, and a parking structure in the West Los Angeles submarket.

The results of the operations of the properties acquired in 2011 and 2010 have been included in the consolidated statements of operations for the years ended December 31, 2012 and 2011. There were no assets acquired or liabilities assumed during the year ended December 31, 2012. The fair values of the assets acquired and liabilities assumed for the above noted acquisitions during the years ended December 31, 2011 and 2010, are as follows:

	2011	2010
Land	\$ 30,611,613	\$ 43,928,138
Land improvements		364,051
Buildings and improvements	31,144,926	142,225,832
Furniture, fixtures, and equipment		1,275,217
Tenant improvements		2,864,724
Acquired in place leases		7,860,526
Above-market leases		2,202,178
Property tax abatement intangible	4,273,006	
Below-market leases		(408,322)
Payable to seller	(1,050,000)	
Seller financing and notes payable assumed	(20,000,000)	(48,562,572)
Net premium on note payable assumed		(1,045,897)
<b>Net assets acquired</b>	<b>\$ 44,979,545</b>	<b>\$ 150,703,875</b>

Acquisition-related expenses of \$632,332, \$3,574,152, and \$2,562,148 associated with the acquisitions of real estate and the conversion to equity of the office properties in 2012 and 2011 were expensed as incurred during the years ended December 31, 2012, 2011, and 2010, respectively.

The amortization of the above- and below-market leases included in rental revenue were \$(1,003,238) and \$3,813,791, respectively, for the year ended December 31, 2012, \$(1,946,612) and \$4,845,706, respectively, for the year ended December 31, 2011, and \$(1,552,785) and \$5,672,902, respectively, for the year ended December 31, 2010. The amortization of in-place leases included in amortization expense was \$5,388,442, \$8,476,006, and \$13,027,887 for the years ended December 31, 2012, 2011, and 2010, respectively. Included in depreciation and amortization are franchise fee affiliation amortization of \$393,617, \$393,617, and \$393,617 for the years ended December 31, 2012, 2011, and 2010, respectively, and amortization of advance bookings of \$0, \$894,657, and \$2,683,958 for the years ended December 31, 2012, 2011, and 2010, respectively. Tax abatement amortization of \$551,356 and \$117,089 for the years ended December 31, 2012 and 2011, respectively, and the amortization of below-market ground lease obligation of \$139,797, \$139,797, and \$139,797 for the years ended December 31, 2012, 2011, and 2010, respectively, are included in rental operating expense.

**Table of Contents**

A schedule of the intangible assets and liabilities and related accumulated amortization and accretion as of December 31, 2012 and 2011, is as follows:

2012	Assets					Liabilities
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement	Franchise Fee Affiliation	Acquired Below-Market Ground Lease	Acquired Below-Market Leases
Gross balance	\$ 8,017,013	\$ 79,644,602	\$ 4,273,006	\$ 3,936,173	\$ 11,684,728	\$ (61,323,186)
Accumulated amortization	(6,164,473)	(70,095,093)	(668,445)	(2,193,285)	(1,001,881)	49,465,016
	\$ 1,852,540	\$ 9,549,509	\$ 3,604,561	\$ 1,742,888	\$ 10,682,847	\$ (11,858,170)
Average useful life (in years)	4	4	8	10	84	6

2011	Assets					Liabilities
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement	Franchise Fee Affiliation	Acquired Below-Market Ground Lease	Acquired Below-Market Leases
Gross balance	\$ 8,017,013	\$ 79,644,602	\$ 4,273,006	\$ 3,936,173	\$ 11,684,728	\$ (61,323,186)
Accumulated amortization	(5,161,235)	(64,706,651)	(117,089)	(1,799,668)	(862,084)	45,651,225
	\$ 2,855,778	\$ 14,937,951	\$ 4,155,917	\$ 2,136,505	\$ 10,822,644	\$ (15,671,961)
Average useful life (in years)	4	4	8	10	84	6

A schedule of future amortization and accretion of acquisition-related intangible assets and liabilities as of December 31, 2012, is as follows:

Years Ending	Assets					Liabilities
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement	Franchise Fee Affiliation	Acquired Below-Market Ground Lease	Acquired Below-Market Leases
December 31						
2013	\$ 750,193	\$ 3,454,727	\$ 551,356	\$ 393,617	\$ 139,797	\$ (2,974,035)
2014	552,453	2,725,615	551,356	393,617	139,797	(2,396,293)
2015	396,473	1,984,573	551,356	393,617	139,797	(2,095,304)
2016	119,580	953,442	551,356	393,617	139,797	(2,016,977)
2017	25,753	387,396	551,356	168,420	139,797	(1,907,448)
Thereafter	8,088	43,756	847,781		9,983,862	(468,113)
	\$ 1,852,540	\$ 9,549,509	\$ 3,604,561	\$ 1,742,888	\$ 10,682,847	\$ (11,858,170)

**4. DISCONTINUED OPERATIONS**

Revenues and expenses from discontinued operations for the year ended December 31, 2010, represent the activities of a sold hotel property. On December 17, 2010, the hotel was sold for approximately \$29.4 million. The aggregate sales proceeds after customary closing costs were approximately \$28.7 million, resulting in a gain on sale of approximately \$7.4 million.



**Table of Contents**

In accordance with ASC 205-20, *Presentation of Financial Statements-Discontinued Operations*, the income and the net gain on dispositions of operating properties are reflected in the consolidated statements of operations as discontinued operations for all periods presented. The revenues and expenses and the net gain on sale for the year ended December 31, 2010, are as follows:

	<b>2010</b>
Revenues hotel	\$ 5,759,624
Expenses:	
Hotel operating	4,151,677
Depreciation and amortization	935,140
<b>Total expenses</b>	<b>5,086,817</b>
Income from discontinued operations	672,807
Gain on sale of real estate	7,446,725
<b>Net income from discontinued operations</b>	<b>\$ 8,119,532</b>

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability. The hierarchy for inputs used in measuring fair value is as follows:

*Level 1 Inputs* Quoted prices in active markets for identical assets or liabilities

*Level 2 Inputs* Observable inputs other than quoted prices in active markets for identical assets and liabilities

*Level 3 Inputs* Unobservable inputs

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. The fair value of the note receivable approximates its carrying value given the maturity date of the note and underlying value of the related collateral. The fair values of mortgage notes payable are presented for disclosure purposes only and are estimated based on current interest rates available to the Partnership for debt instruments with similar terms. The fair value of our mortgages payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis is generally used to estimate the fair value of our mortgages payable, using rates ranging from 4.54% to 5.15% for the year ended December 31, 2012, and rates ranging from 4.50% to 5.50% for the year ended December 31, 2011. Mortgages payable with book values of \$315,631,338 and \$324,536,559 as of December 31, 2012 and 2011, respectively, have a fair value of approximately \$317,338,000 and \$326,000,000, respectively.



**Table of Contents****6. MORTGAGES PAYABLE**

The mortgages payable as of December 31, 2012 and 2011, are as follows:

	2012	2011
Mortgage loan with a fixed interest rate of 6.30% per annum, with monthly payments of principal and interest. The loan has a 25 <sup>1</sup> / <sub>2</sub> -year amortization schedule with a balance of \$65,146,785 due on September 10, 2013. This loan is not prepayable and is nonrecourse to the Partnership.	\$ 66,644,340	\$ 68,534,398
Mortgage loan with a fixed interest rate of 6.30% per annum, with monthly payments of principal and interest. The loan has an eight-year amortization schedule through September 10, 2013. This loan is not prepayable and is nonrecourse to the Partnership.	233,022	527,121
Mortgage loan with a fixed interest rate of 7.66% per annum, with monthly payments of principal and interest. The loan has a 20-year amortization schedule with a \$25,323,858 balance due on December 1, 2015. The loan is nonrecourse to the Partnership.	29,632,643	30,902,444
Mortgage loan with a fixed interest rate of 7.49% per annum, with monthly payments of principal and interest. The loan had a 10-year amortization schedule with a \$28,667,588 balance due on November 15, 2011, was partial recourse to the Partnership, and was paid in full in 2011.		
Mortgage loan with a fixed interest rate of 4.50% per annum, with monthly payments of interest only for 10 years, and payments of interest and principal starting in February 2022. The loan has a \$42,008,187 balance due on January 5, 2027. The loan is nonrecourse to the Partnership.	46,000,000	46,000,000
Mortgage loan with a fixed interest rate of 5.56% per annum, with monthly payments of principal and interest. The loan has a 10-year amortization schedule with a \$12,287,725 balance due on July 1, 2015, and is nonrecourse to the Partnership.	13,014,840	13,275,882
Mortgage loan with a fixed interest rate of 6.65% per annum, with monthly payments of principal and interest. The loan has a 25-year amortization schedule with a \$21,136,209 balance due on July 15, 2018. The loan is nonrecourse to the Partnership.	37,267,917	39,618,774
Mortgage loan with a fixed interest rate of 5.95% per annum, with monthly payments of principal and interest, and a balance of \$10,500,164 due on December 1, 2013. The loan is nonrecourse to the Partnership.	10,747,897	10,977,489
Mortgage loan with a fixed interest rate of 5.06% per annum, with monthly payments of principal and interest, and a balance of \$33,068,178 due on September 1, 2015. The loan is nonrecourse to the Partnership.	35,390,779	36,152,898
Mortgage loans with a fixed interest rate of 5.39% per annum, with monthly payments of principal and interest, and a balance of \$35,695,293 due on March 1, 2021. The loans are nonrecourse to the Partnership.	41,780,437	42,351,729
Mortgage loan with a fixed interest rate of 5.18% per annum, with monthly payments of principal and interest, and a balance of \$26,231,655 due on June 5, 2021. The loan is nonrecourse to the Partnership.	31,305,500	31,774,456
	312,017,375	320,115,191
Premiums and discounts on assumed mortgages payable	3,613,963	4,421,368
Total	\$ 315,631,338	\$ 324,536,559

**Table of Contents**

The notes payable are secured by deeds of trust on certain of the properties and assignments of rents.

In accordance with the Partnership Agreement, the Partnership generally may not incur additional debt if total debt of the Partnership would exceed 30% (50% with the approval of the Partnership's advisory board) of the sum of the aggregate adjusted fair value of all Partnership's investments, less permitted investments in the REIT, as defined. At December 31, 2012 and 2011, the Partnership was in compliance with all requirements.

Future maturities of the principal balances of the notes payable as of December 31, 2012, are as follows:

<b>Years Ending</b>	
<b>December 31</b>	
2013	\$ 83,698,236
2014	6,472,570
2015	77,055,390
2016	4,354,005
2017	4,641,634
Thereafter	135,795,540
<b>Total</b>	<b>\$ 312,017,375</b>

At December 31, 2012 and 2011, accrued interest payable of \$1,268,598 and \$1,162,663, respectively, is included with accounts payable and accrued expenses.

**7. UNSECURED REVOLVING LINE OF CREDIT**

In February 2012, the Partnership entered into an unsecured revolving line of credit with an unrelated financial institution, which allows for maximum borrowings of \$100,000,000. Borrowings under the line of credit are limited by certain borrowing base calculations. Outstanding advances under the line of credit bear interest at the base rate, as defined, plus 0.75% to 1.50% or LIBOR plus 1.75% to 2.50%, depending on the maximum consolidated leverage ratio, as defined. The line of credit contains various restrictions and covenants, including the Partnership maintaining a minimum net asset value of \$1,000,000,000 and a fixed-charge coverage rate of not less than 1.5:1.0. The line of credit matures in February 2016, with a one-year extension option under certain conditions. As of December 31, 2012, \$30,000,000 was outstanding under the line of credit, and \$70,000,000 was available for future borrowings.

At December 31, 2012, accrued interest payable and unused commitment fee payable of \$81,765 is included with accounts payable and accrued expenses.

**8. RELATED-PARTY TRANSACTIONS**

CIM Urban REIT Management, LP (the Management Company), an affiliate of REIT GP, provides asset management services to the Partnership. For these services, the Partnership pays asset management fees to the Management Company, on a quarterly basis, in arrears. The fee is calculated as a percentage of the daily average gross fair value of the Partnership's investments, as defined, as follows:

<b>Daily Average Gross Fair Value of Investments</b>		<b>Quarterly</b>
<b>From Greater of</b>	<b>To and Including</b>	<b>Fee Percentage</b>
\$	\$ 500,000,000	0.2500%
500,000,000	1,000,000,000	0.2375
1,000,000,000	1,500,000,000	0.2250

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

1,500,000,000	4,000,000,000	0.2125
4,000,000,000	20,000,000,000	0.1000

F-18

**Table of Contents**

For the years ended December 31, 2012, 2011, and 2010, the Management Company earned asset management fees of \$20,923,852, \$19,326,284, and \$17,656,999, respectively. At December 31, 2012 and 2011, asset management fees of \$5,206,426 and \$4,864,114, respectively, were due to the Management Company.

CIM Group, LP, an affiliate of REIT GP, provides property management, leasing, and development services to the Partnership. For the years ended December 31, 2012, 2011, and 2010, CIM Group, LP earned property management fees totaling \$4,170,611, \$3,188,110, and \$3,239,730, respectively, which are included in rental operating expenses. The Partnership also reimbursed CIM Group, LP \$2,726,445, \$1,000,038, and \$1,012,862 during the years ended December 31, 2012, 2011, and 2010, respectively, for the cost of on-site personnel incurred on behalf of the Partnership, which is included in rental operating expenses. In addition, for the years ended December 31, 2012, 2011, and 2010, CIM Group, LP earned leasing commissions of \$744,269, \$843,730, and \$2,403,867, respectively, and development management fees of \$973,239, \$1,575,972, and \$0, respectively, which were capitalized to deferred charges and investments in real estate, respectively. At December 31, 2012 and 2011, fees payable and expense reimbursements due to CIM Group, LP of \$843,246 and \$523,687, respectively, are included in due to related parties. Also included in due to related parties as of December 31, 2012 and 2011, is \$15,484 and \$(26,849), respectively, due to (from) CIM Group, LP and related parties. In addition, the noncontrolling interest owner of an office project was the property manager for that property for part of the year ended December 31, 2012, and during the year ended December 31, 2011 and 2010. The Partnership has also entered into contracts with third-party property management companies.

Certain of these management companies also provide leasing and construction supervision services, for which they are compensated in accordance with the agreements. Management fees incurred to the noncontrolling interest owner of an office project and third-party management companies related to the rental properties totaled \$683,483, \$1,433,645, and \$1,380,402 for the years ended December 31, 2012, 2011, and 2010, respectively, which were included in rental operating expenses.

**9. COMMITMENTS AND CONTINGENCIES**

**Litigation** The Partnership is not currently involved in any material litigation nor, to the Partnership's knowledge, is any material litigation currently threatened against it, other than routine litigation arising in the ordinary course of business, most of which are expected to be covered by liability insurance.

**Environmental Matters** In connection with the ownership and operation of the real estate properties, the Partnership may be potentially liable for costs and damages related to environmental matters, including asbestos-containing materials. The Partnership has not been notified by any governmental authority of any noncompliance, liability, or other claim in connection with any of the properties, and the Partnership is not aware of any other environmental condition with respect to any of the properties that management believes will have a material effect on the Partnership's consolidated financial position, results of operations, or cash flows.

**Rent Expense** The ground lease for one of the projects provides for current annual rent of \$437,252, payable quarterly, with increases on June 1, 2015, and every five years thereafter based on the greater of 15% or 50% of the increase in the Consumer Price Index during a five-year adjustment period. In addition, commencing on June 1, 2040 and 2065, the rent payable during the balance of the lease term shall be increased by an amount equal to 10% of the rent payable during the immediately preceding lease year. The lease term is through May 31, 2089. If the landlord decides to sell the leased property, the Partnership has the right of first refusal.

Rent expense under the lease, which includes straight-line rent and amortization of acquired below-market ground lease, was \$1,752,037 for each of the three years in the period ended December 31, 2012. The

**Table of Contents**

Partnership records rent expense on a straight-line basis. Straight-line rent liability of \$8,687,947 and \$7,512,959 is included in security deposits, deferred revenues, and other liabilities in the accompanying consolidated balance sheets as of December 31, 2012 and 2011, respectively.

Scheduled future noncancelable minimum lease payments at December 31, 2012, are as follows:

Years Ending	
December 31	
2013	\$ 437,252
2014	437,252
2015	475,511
2016	502,840
2017	502,840
Thereafter	129,534,156
<b>Total</b>	<b>\$ 131,889,851</b>

**10. FUTURE MINIMUM LEASE RENTALS**

Future minimum rental revenues under long-term operating leases at December 31, 2012, excluding tenant reimbursements of certain costs, are summarized as follows:

Years Ending	Governmental		
	Tenants	Other Tenants	Total
December 31			
2013	\$ 51,177,346	\$ 91,684,990	\$ 142,862,336
2014	52,946,617	80,759,032	133,705,649
2015	43,755,158	71,082,868	114,838,026
2016	43,000,294	50,760,422	93,760,716
2017	39,999,548	41,444,685	81,444,233
Thereafter	214,061,526	68,237,781	282,299,307
<b>Total</b>	<b>\$ 444,940,489</b>	<b>\$ 403,969,778</b>	<b>\$ 848,910,267</b>

**11. CONCENTRATIONS**

**Tenant Revenue Concentrations** For the years ended December 31, 2012, 2011, and 2010, rental revenues from the U.S. General Services Administration and other government agencies (collectively, Governmental Tenants), which primarily occupy properties located in Washington, D.C., accounted for approximately 33%, 31%, and 31%, respectively, of the Partnership's rent revenues. At December 31, 2012 and 2011, \$4,434,253 and \$3,015,611, respectively, is due from Governmental Tenants (see Note 10).

**Geographical Concentrations** As of December 31, 2012 and 2011, the Partnership owned 19 properties, inclusive of one and two notes receivable, respectively, located in four states and Washington, D.C.

The Partnership's revenues concentration from properties and the notes receivable for the years ended December 31, 2012, 2011, and 2010, are as follows:

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

	<b>2012</b>	<b>2011</b>	<b>2010</b>
California	58.0%	59.2%	60.1%
North Carolina	6.5	7.2	6.2
Texas	7.6	7.7	6.3
New York	2.1	1.0	
Washington, D.C.	25.8	24.9	27.4
	100.0%	100.0%	100.0%

F-20

**Table of Contents**

The Partnership's real estate investment concentrations from properties and the notes receivable as of December 31, 2012 and 2011, are as follows:

	2012	2011
California	50.8%	51.0%
North Carolina	5.7	5.7
Texas	7.6	7.4
New York	3.7	3.7
Washington, D.C.	32.2	32.2
	100.0%	100.0%

**12. SEGMENT DISCLOSURE**

In accordance with ASC Topic 280, *Segment Reporting*, the Partnership's reportable segments consist of three types of commercial real estate properties, namely, office properties, hotel properties, and multifamily properties. Management internally evaluates the operating performance and financial results of the segments based on net operating income. The Partnership also has certain general and administrative level activities, including legal, accounting, tax preparation, and partner servicing costs that are not considered separate operating segments. The reportable segments are accounted for on the same basis of accounting as described in Note 2.

The Partnership evaluates the performance of its segments based on net operating income, defined as: rental income and tenant reimbursements less property and related expenses, and excludes other nonproperty income and expenses, interest expense, depreciation and amortization, corporate-related general and administrative expenses, and acquisition costs. The net operating income of our reportable segments for the years ended December 31, 2012, 2011, and 2010, is as follows:

	Years Ended December 31,		
	2012	2011	2010
<b>Office Properties</b>			
Revenues	\$ 172,583,129	\$ 158,320,757	\$ 162,641,273
Property expenses:			
Operating	66,230,345	63,963,742	66,040,260
General and administrative	1,121,997	683,469	914,059
Total property expenses	67,352,342	64,647,211	66,954,319
Segment net operating income Office	105,230,787	93,673,546	95,686,954
<b>Hotel Properties</b>			
Revenues	41,086,304	39,504,628	37,724,698
Property expenses:			
Operating	25,951,332	25,110,980	24,267,372
General and administrative	183,837	141,491	(491,187)
Total property expenses	26,135,169	25,252,471	23,776,185
Segment net operating income Hotel	14,951,135	14,252,157	13,948,513





**Table of Contents**

	Years Ended December 31,		
	2012	2011	2010
<b>Multifamily Properties</b>			
Revenues	\$ 18,843,967	\$ 15,467,462	\$ 10,295,774
Property expenses:			
Operating	7,406,918	6,011,328	5,127,060
General and administrative	344,313	218,768	18,861
Total property expenses	7,751,231	6,230,096	5,145,921
Segment net operating income Multifamily	11,092,736	9,237,366	5,149,853
Total segments net operating income	\$ 131,274,658	\$ 117,163,069	\$ 114,785,320

A reconciliation of segment net operating income to net income (loss) attributable to partners for the years ended December 31, 2012, 2011, and 2010, is as follows:

	Years Ended December 31,		
	2012	2011	2010
Total segments net operating income	\$ 131,274,658	\$ 117,163,069	\$ 114,785,320
Interest expense	(18,856,150)	(18,127,772)	(17,057,803)
General and administrative	(1,122,313)	(1,021,982)	(759,139)
Asset management fees to related party	(20,923,852)	(19,326,284)	(17,656,999)
Acquisition related costs	(632,332)	(3,574,152)	(2,562,148)
Depreciation and amortization	(69,942,668)	(68,803,511)	(71,204,104)
Net income from continuing operations	19,797,343	6,309,368	5,545,127
Discontinued operations:			
Income from discontinued operations			672,807
Gain on sale of real estate			7,446,725
Net income from discontinued operations			8,119,532
Net income	19,797,343	6,309,368	13,664,659
Net income attributable to noncontrolling interests	(208,504)	(187,464)	(137,070)
Net income attributable to partners	\$ 19,588,839	\$ 6,121,904	\$ 13,527,589

The condensed assets for each of the segments, along with their capital expenditures for each year, are as follows:

	December 31,	
	2012	2011
Condensed assets:		
Office properties	\$ 1,505,046,216	\$ 1,528,649,965
Hotel properties continuing operations	178,356,307	184,226,786
Hotel properties discontinued operations		
Multi-family properties	175,361,371	185,389,898
Non-segment assets	11,948,597	17,742,052

Total assets	\$ 1,870,712,491	\$ 1,916,008,701
--------------	------------------	------------------

F-22

**Table of Contents**

	2012	December 31, 2011	2010
Capital expenditures(1) :			
Office properties	\$ 23,153,520	\$ 49,227,807	\$ 21,199,563
Hotel properties continuing operations	597,987	1,774,314	1,499,947
Hotel properties discontinued operations			201,689
Multi-family properties	1,718,149	1,172,577	176,452
Total capital expenditures	\$ 25,469,656	\$ 52,174,698	\$ 23,077,651

(1) This table presents additions and improvements to real estate investments, excluding acquisitions.

\*\*\*\*\*

F-23

**Table of Contents**

**CIM Urban Partners, LP**

**and Subsidiaries**

(A Delaware Limited Partnership)

Condensed Consolidated Financial Statements for the

Three and Six Months Ended June 30, 2013 and

June 30, 2012 (unaudited)

F-24

**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF JUNE 30, 2013 AND DECEMBER 31, 2012 (UNAUDITED)**

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Investments in real estate Net	\$ 1,656,623,470	\$ 1,676,823,643
Cash and cash equivalents	33,350,981	31,513,557
Restricted cash	8,433,913	8,831,293
Accounts Receivable Net	10,694,775	8,365,697
Note Receivable Net	40,100,000	40,100,000
Deferred Rent Receivable	45,393,765	42,124,914
Acquired below-market ground lease Net	10,612,949	10,682,847
Acquired above-market leases Net	1,456,790	1,852,540
Acquired in-place leases Net	7,675,746	9,549,509
Deferred charges Net	32,040,513	33,729,759
Prepaid expenses and other assets Net	8,405,345	7,138,732
<b>TOTAL ASSETS</b>	<b>\$ 1,854,788,247</b>	<b>\$ 1,870,712,491</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Mortgages payable	\$ 310,963,804	\$ 315,631,338
Unsecured revolving line of credit	56,000,000	30,000,000
Accounts payable and accrued expenses	16,283,283	20,927,615
Acquired below-market leases net	10,267,445	11,858,170
Security deposits, deferred revenues, and other liabilities	19,478,885	20,157,394
Asset management fees payable to related party	5,526,957	5,206,426
Due to related parties	717,659	858,730
<b>Total liabilities</b>	<b>419,238,033</b>	<b>404,639,673</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>		
<b>EQUITY:</b>		
Partners equity:		
Limited partners	1,432,792,238	1,463,273,824
General partner	1,000	1,000
<b>Total partners equity</b>	<b>1,432,793,238</b>	<b>1,463,274,824</b>
Noncontrolling interests	2,756,976	2,797,994
<b>Total equity</b>	<b>1,435,550,214</b>	<b>1,466,072,818</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,854,788,247</b>	<b>\$ 1,870,712,491</b>

See notes to unaudited condensed consolidated financial statements.



**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>REVENUES:</b>				
Rent	\$ 45,413,097	\$ 44,589,849	\$ 91,003,658	\$ 89,538,571
Expense reimbursements	2,596,526	2,299,547	5,046,655	4,446,988
Hotel	10,554,814	9,732,739	20,131,920	19,592,018
Interest and fees	7,099	1,116,590	323,977	2,218,029
Other operating income	1,265,902	494,831	1,640,123	843,718
<b>Total revenues</b>	<b>59,837,438</b>	<b>58,233,556</b>	<b>118,146,333</b>	<b>116,639,324</b>
<b>EXPENSES:</b>				
Rental operating	18,189,592	17,757,833	36,471,870	35,672,780
Hotel operating	7,041,953	6,583,705	13,481,164	13,209,383
Asset management fees to related party	5,431,402	5,195,873	10,839,931	10,451,176
Interest	4,724,208	4,681,764	9,401,521	9,432,163
General and administrative	714,643	635,010	1,257,099	1,120,944
Acquisition related costs	1,394,124		1,394,124	
Depreciation and amortization	17,533,701	17,669,009	34,670,407	34,590,624
<b>Total expenses</b>	<b>55,029,623</b>	<b>52,523,194</b>	<b>107,516,116</b>	<b>104,477,070</b>
<b>NET INCOME</b>	<b>4,807,815</b>	<b>5,710,362</b>	<b>10,630,217</b>	<b>12,162,254</b>
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(113,330)</b>	<b>(110,743)</b>	<b>(109,330)</b>	<b>(105,786)</b>
<b>NET INCOME ATTRIBUTABLE TO PARTNERS</b>	<b>\$ 4,694,485</b>	<b>\$ 5,599,619</b>	<b>\$ 10,520,887</b>	<b>\$ 12,056,468</b>

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY****FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND JUNE 30, 2013 (UNAUDITED)**

	Partners			Noncontrolling Interests	Total
	Limited Partner	General Partner	Total		
BALANCE January 1, 2012	\$ 1,516,671,768	\$ 1,000	\$ 1,516,672,768	\$ 2,847,816	\$ 1,519,520,584
Distributions	(33,986,784)		(33,986,784)	(142,701)	(34,129,485)
Net income	12,056,468		12,056,468	105,786	12,162,254
<b>BALANCE June 30, 2012</b>	<b>\$ 1,494,741,452</b>	<b>\$ 1,000</b>	<b>\$ 1,494,742,452</b>	<b>\$ 2,810,901</b>	<b>\$ 1,497,553,353</b>
BALANCE January 1, 2013	\$ 1,463,273,824	\$ 1,000	\$ 1,463,274,824	\$ 2,797,994	\$ 1,466,072,818
Contributions	32,102		32,102		32,102
Distributions	(41,034,575)		(41,034,575)	(150,348)	(41,184,923)
Net income	10,520,887		10,520,887	109,330	10,630,217
<b>BALANCE June 30, 2013</b>	<b>\$ 1,432,792,238</b>	<b>\$ 1,000</b>	<b>\$ 1,432,793,238</b>	<b>\$ 2,756,976</b>	<b>\$ 1,435,550,214</b>

See notes to unaudited condensed consolidated financial statements.



**Table of Contents****CIM URBAN PARTNERS, LP AND SUBSIDIARIES****(A Delaware Limited Partnership)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2013, AND 2012 (UNAUDITED)**

	June 30, 2013	June 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 10,630,217	\$ 12,162,254
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent	(3,268,851)	(8,688,406)
Depreciation and amortization	34,670,407	34,590,624
Amortization of above- and below-market rent	(1,194,975)	(1,407,312)
Amortization of below-market ground lease	69,898	69,898
Straight line rent below-market ground lease	587,494	587,494
Amortization of deferred loan costs	298,637	385,110
Amortization of premiums and discounts on assumed mortgages payable	(402,866)	(402,309)
Amortization of discount on note receivable		(694,038)
Bad debt expense	467,229	226
Changes in operating assets and liabilities:		
Accounts receivable	(2,796,307)	(1,299,446)
Prepaid expenses and other assets	(1,463,421)	7,252,054
Accounts payable and accrued expenses	(2,421,245)	(8,650,366)
Deferred charges	(1,840,054)	(2,450,942)
Security deposits, deferred revenues, and other liabilities	(1,266,003)	(2,099,640)
Asset management fees payable to related party	320,531	458,416
Due to related parties	(141,071)	615,275
<b>Net cash provided by operating activities</b>	<b>32,249,620</b>	<b>30,428,892</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions of real estate properties and mortgage note receivable		(1,050,000)
Additions to investments in real estate	(11,384,313)	(17,229,331)
Change in restricted cash	397,380	1,608,438
<b>Net cash used in investing activities</b>	<b>(10,986,933)</b>	<b>(16,670,893)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of mortgages payable	(4,264,668)	(3,984,586)
Proceeds from unsecured revolving line of credit	26,000,000	15,000,000
Deferred loan costs	(7,774)	(1,082,304)
Partner contributions	32,102	
Partner distributions	(41,034,575)	(33,986,784)
Noncontrolling interests distributions	(150,348)	(142,701)
<b>Net cash used in financing activities</b>	<b>(19,425,263)</b>	<b>(24,196,375)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,837,424</b>	<b>(10,438,376)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form S-4

Beginning of period	31,513,557	46,236,785
End of period	\$ 33,350,981	\$ 35,798,409
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	\$ 9,502,251	\$ 9,256,034
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to investments in real estate included in accounts payable and accrued expenses	\$ 2,105,499	\$ 2,671,262

See notes to unaudited condensed consolidated financial statements.

---

**Table of Contents**

**CIM URBAN PARTNERS, LP AND SUBSIDIARIES**

**(A Delaware Limited Partnership)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2013**

**AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)**

**1. ORGANIZATION AND OPERATIONS**

CIM Urban Partners, LP and subsidiaries (the Partnership, we, us, or our ), a Delaware limited partnership, was formed pursuant to the Agreement of Limited Partnership dated February 4, 2005, as amended and restated, and subsequently amended (the Partnership Agreement ). The Partnership invests in substantially stabilized real estate assets located in high-population density, high-barrier-to-entry urban markets, which include traditional downtown areas and suburban main streets that lie within the metropolitan areas of the United States of America. The partners of the Partnership are CIM Urban Partners GP, LLC ( REIT GP ), a California limited liability company, as the general partner, and CIM Urban REIT, LLC ( REIT ), a Delaware limited liability company, as the limited partner. REIT GP contributed \$1,000 of capital, with the REIT contributing the balance. Profits and losses are allocated to the partners, and cash is distributed in accordance with the Partnership Agreement.

The term of the Partnership expires upon the first to occur: (a) an election to dissolve the Partnership is made by REIT GP with the consent of the REIT, as defined, (b) an election to dissolve the Partnership is made by REIT GP after the reduction to cash of all or substantially all of the Partnership's investments, or (c) subject to the provisions of the Partnership Agreement, the bankruptcy, dissolution, removal, or other withdrawal of REIT GP or the sale, transfer, or assignment by REIT GP of its interest in the Partnership.

The REIT was formed pursuant to the Limited Liability Company Agreement dated February 4, 2005, as amended and restated, and subsequently amended (the REIT Agreement ) for the purpose of investing in limited partnership interests in the Partnership. The REIT has two classes of ownership interests outstanding and authorized for issuance: Class A and Class B, each of which is represented by respective membership units. The subscribed Class A members of the REIT are CIM Urban Sponsor, LLC, a California limited liability company, and an affiliate of REIT GP, and various unrelated institutional investors, primarily tax-exempt entities.

The Class B members of the REIT are CIM Group, LLC, an affiliate of REIT GP, the general partner of the Partnership, and various unrelated parties.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For more information regarding our significant accounting policies and estimates, please refer to Summary of Significant Accounting Policies contained in Note 2 to our consolidated financial statements for the year ended December 31, 2012.

**Interim Financial Information** The accompanying interim condensed consolidated financial statements have been prepared by our management in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). Certain information and note disclosures required for annual financial statements have been condensed or excluded pursuant to Securities and Exchange Commission ( SEC ) rules and regulations. Accordingly, the interim condensed consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements. The accompanying financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. Operating results for the six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. Our accompanying interim condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto.

**Table of Contents**

**Principles of Consolidation** The consolidated financial statements include the accounts of the Partnership and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

**Investments in Real Estate** Real estate acquisitions are recorded at cost as of the date of closing. Costs related to the acquisition of properties are expensed as incurred. Investments in real estate are stated at depreciated cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives as follows:

Buildings and improvements	15 - 40 years
Furniture, fixtures, and equipment	3 - 5 years
Tenant improvements	Shorter of the useful lives or the terms of the related leases

Improvements and replacements are capitalized when they extend the useful life, increase capacity, or improve the efficiency of the asset. Ordinary repairs and maintenance are expensed as incurred.

Investments in real estate are evaluated for impairment on an annual basis, or whenever events or changes in circumstances indicate 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 to the future net cash flows, undiscounted and without interest, 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 estimated fair value of the assets. The estimated fair value of the asset group identified for step two testing is based on either the income approach with market discount rate, terminal capitalization rate and rental rate assumptions being most critical, or on the sales comparison approach to similar properties. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. No impairment of long-lived assets was recognized during the three and six months ended June 30, 2013 and 2012.

**Note Receivable** Note receivable represents a mortgage note investment secured by a first mortgage on a hotel located near the Los Angeles Airport. The note pays interest monthly at the London InterBank Offered Rate (LIBOR) plus 2.35%, with a LIBOR floor of 4.75%. For the periods ended June 30, 2013 and 2012, the interest rate was 7.10%. The note was acquired at a discount of \$6,015,000, which was amortized from note acquisition through August 9, 2012. Discount amortization of \$0 and \$694,038 was recorded in interest income for the periods ended June 30, 2013 and 2012, respectively. The note matured on August 9, 2012, and was extended through August 9, 2013. The borrower stopped paying interest in February 2013, is currently in default, and as a result the Partnership has entered into negotiations with the borrower and has simultaneously commenced a judicial foreclosure action and a non-judicial foreclosure against the borrower and the property. The borrower's most recent default may make principal exposure likely but not yet certain, and as such, since February 2013, the Partnership has been accounting for this under the non-accrual method. At June 30, 2013, the Partnership evaluated whether the borrowing entity represented a variable interest to the Partnership and we determined the entity was not a variable interest.

The Partnership recognized interest income and fees, inclusive of discount amortization, related to the mortgage note of \$0 and \$1,085,581 during the three months ended June 30, 2013 and 2012, respectively and \$316,344 and \$2,172,775 during the six months ended June 30, 2013 and 2012, respectively. At June 30, 2013 and December 31, 2012, the Partnership has recorded interest receivable, net of allowance for doubtful accounts, related to the hotel first mortgage of \$91,057 and \$265,047, respectively, which is included in accounts receivable.

On an annual basis, and more frequently if indicators exist, we evaluate the collectability of our notes receivable. Our evaluation of collectability involves judgment, estimates, and a review of the underlying collateral and borrowers' business models and future operations in accordance with ASC 450-20,

**Table of Contents**

**Contingencies** Loss Contingencies and ASC 310-10, Receivables. As of June 30, 2013 and 2012, no impairments of notes receivable were recorded.

**Deferred Charges** Deferred charges consist of deferred loan costs and deferred leasing costs. Deferred loan costs, which represent legal and third-party fees incurred in connection with our borrowing activities, are capitalized and amortized to interest expense on a straight-line basis over the life of the related loan, approximating the effective interest method. Deferred loan costs of \$5,360,496 and \$5,352,722 are presented net of accumulated amortization of \$3,134,146 and \$2,835,509 at June 30, 2013, and December 31, 2012, respectively. Deferred leasing costs, which represent lease commissions and other direct costs associated with the acquisition of tenants, are capitalized and amortized on a straight-line basis over the terms of the related leases. Deferred leasing costs of \$46,136,053 and \$44,295,999 are presented net of accumulated amortization of \$16,321,890 and \$13,083,453 at June 30, 2013, and December 31, 2012, respectively.

**Noncontrolling Interests** Noncontrolling interests represents interests in the various properties not owned by the Partnership.

**Consolidation Considerations for Our Investments in Real Estate** ASC 810-10, *Consolidation*, addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights that would require the entity to be consolidated. We analyze our investments in real estate in accordance with this accounting standard to determine whether they are variable interest entities, and if so, whether we are the primary beneficiary. Our judgment with respect to our level of influence or control over an entity and whether we are the primary beneficiary of a variable interest entity involves consideration of various factors, including the form of our ownership interest, our voting interest, the size of our investment (including loans), and our ability to participate in major policy making decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in our consolidated financial statements.

**Use of Estimates** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** In preparing the accompanying consolidated financial statements, management has evaluated subsequent events through August 23, 2013, the date the consolidated financial statements were available to be issued. The Partnership believes that the disclosures contained herein are adequate to prevent the information presented from being misleading.

**3. INVESTMENTS IN REAL ESTATE**

Investments in real estate consist of the following:

	June 30, 2013	December 31, 2012
Land	\$ 315,398,311	\$ 315,398,311
Land improvements	27,084,521	27,084,521
Buildings and improvements	1,429,658,194	1,427,687,961
Furniture, fixtures, and equipment	18,457,187	17,582,164
Tenant improvements	171,973,972	169,073,001
Work in progress	13,637,294	10,222,295
	1,976,209,479	1,967,048,253
Accumulated depreciation	(319,586,009)	(290,224,610)
Net investments in real estate	\$ 1,656,623,470	\$ 1,676,823,643

**Table of Contents****4. ACQUISITION-RELATED INTANGIBLE ASSETS**

The amortization of the above-market leases included in rental revenue were \$(196,306) and \$(275,528) for the three months ended June 30, 2013 and 2012, respectively and \$(395,750) and \$(559,058) for the six months ended June 30, 2013 and 2012, respectively. The amortization of the below-market leases included in rental revenue were \$794,606 and \$974,973 for the three months ended June 30, 2013 and 2012, respectively and \$1,590,725 and \$1,966,370 for the six months ended June 30, 2013 and 2012, respectively. The amortization of in-place leases included in depreciation and amortization expense was \$926,421, and \$1,436,814 for the three months ended June 30, 2013 and 2012, respectively and \$1,873,763, and \$2,929,624 for the six months ended June 30, 2013 and 2012, respectively. Included in depreciation and amortization expense are franchise fee affiliation amortization of \$98,404 and \$98,404, for the three months ended June 30, 2013, and 2012, respectively and \$196,808 and \$196,808, for the six months ended June 30, 2013, and 2012, respectively. Tax abatement amortization of \$137,839 and \$137,839 for the three months ended June 30, 2013 and 2012, respectively and \$275,678 and \$275,678 for the six months ended June 30, 2013 and 2012, respectively. The amortization of below-market ground lease obligation of \$34,949, and \$34,949 for the three months ended June 30, 2013 and 2012, respectively, and \$69,898, and \$69,898 for the six months ended June 30, 2013 and 2012, respectively, are included in rental operating expenses.

A schedule of the intangible assets and liabilities and related accumulated amortization and accretion as of June 30, 2013 and December 31, 2012, is as follows:

	Assets				Liabilities	
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement	Franchise Fee Affiliation	Acquired Below-Market Ground Lease	Acquired Below-Market Leases
<b>June 30, 2013</b>						
Gross balance	\$ 8,017,013	\$ 79,644,602	\$ 4,273,006	\$ 3,936,173	\$ 11,684,728	\$ (61,323,186)
Accumulated amortization	(6,560,223)	(71,968,856)	(944,123)	(2,390,093)	(1,071,779)	51,055,741
	\$ 1,456,790	\$ 7,675,746	\$ 3,328,883	\$ 1,546,080	\$ 10,612,949	\$ (10,267,445)
Average useful life (in years)	4	4	8	10	84	6
<b>December 31, 2012</b>						
Gross balance	\$ 8,017,013	\$ 79,644,602	\$ 4,273,006	\$ 3,936,173	\$ 11,684,728	\$ (61,323,186)
Accumulated amortization	(6,164,473)	(70,095,093)	(668,445)	(2,193,285)	(1,001,881)	49,465,016
	\$ 1,852,540	\$ 9,549,509	\$ 3,604,561	\$ 1,742,888	\$ 10,682,847	\$ (11,858,170)
Average useful life (in years)	4	4	8	10	84	6

**Table of Contents**

A schedule of future amortization and accretion of acquisition-related intangible assets and liabilities as of June 30, 2013, is as follows:

Years Ending December 31	Assets				Liabilities	
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement	Franchise Fee Affiliation	Acquired Below-Market Ground Lease	Acquired Below-Market Leases
July 1, 2013 to December 31, 2013	\$ 355,003	\$ 1,582,302	\$ 275,678	\$ 196,809	\$ 69,899	\$ (1,383,468)
2014	551,893	2,724,277	551,356	393,617	139,797	(2,396,135)
2015	396,473	1,984,573	551,356	393,617	139,797	(2,095,304)
2016	119,580	953,442	551,356	393,617	139,797	(2,016,977)
2017	25,753	387,396	551,356	168,420	139,797	(1,907,448)
Thereafter	8,088	43,756	847,781		9,983,862	(468,113)
	\$ 1,456,790	\$ 7,675,746	\$ 3,328,883	\$ 1,546,080	\$ 10,612,949	\$ (10,267,445)

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability. The hierarchy for inputs used in measuring fair value is as follows:

*Level 1 Inputs* Quoted prices in active markets for identical assets or liabilities

*Level 2 Inputs* Observable inputs other than quoted prices in active markets for identical assets and liabilities

*Level 3 Inputs* Unobservable inputs

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. The fair value of the note receivable approximates its carrying value based on the underlying value of the related collateral. The fair values of mortgage notes payable are presented for disclosure purposes only and are estimated based on current interest rates available to the Partnership for debt instruments with similar terms which are considered *Level 3* inputs. The fair value of our mortgages payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis is generally used to estimate the fair value of our mortgages payable, using rates ranging from 4.54% to 5.15% for the period ended June 30, 2013 and 4.54% to 5.15% for the year ended December 31, 2012. Mortgages payable with book values of \$310,963,804 and \$315,631,338 as of June 30, 2013 and December 31, 2012, respectively, have a fair value of approximately \$311,982,000 and \$317,338,000, respectively.

**Table of Contents****6. MORTGAGES PAYABLE**

The mortgages payable as of June 30, 2013 and December 31, 2012, are as follows:

	June 30, 2013	December 31, 2012
Mortgage loan with a fixed interest rate of 6.30% per annum, with monthly payments of principal and interest. The loan has a 25 1/2-year amortization schedule with a balance of \$65,146,785 due on September 10, 2013. This loan is not prepayable without penalty and is nonrecourse to the Partnership.	\$ 65,653,832	\$ 66,644,340
Mortgage loan with a fixed interest rate of 6.30% per annum, with monthly payments of principal and interest. The loan has an eight-year amortization schedule through September 10, 2013. This loan is not prepayable without penalty and is nonrecourse to the Partnership.	78,895	233,022
Mortgage loan with a fixed interest rate of 7.66% per annum, with monthly payments of principal and interest. The loan has a 20-year amortization schedule with a \$25,323,858 balance due on December 1, 2015. The loan is nonrecourse to the Partnership.	28,960,445	29,632,643
Mortgage loan with a fixed interest rate of 4.50% per annum, with monthly payments of interest only for 10 years, and payments of interest and principal starting in February 2022. The loan has a \$42,008,187 balance due on January 5, 2027. The loan is nonrecourse to the Partnership.	46,000,000	46,000,000
Mortgage loan with a fixed interest rate of 5.56% per annum, with monthly payments of principal and interest. The loan has a 10-year amortization schedule with a \$12,287,725 balance due on July 1, 2015, and is nonrecourse to the Partnership.	12,876,662	13,014,840
Mortgage loan with a fixed interest rate of 6.65% per annum, with monthly payments of principal and interest. The loan has a 25-year amortization schedule with a \$21,136,209 balance due on July 15, 2018. The loan is nonrecourse to the Partnership.	36,028,784	37,267,917
Mortgage loan with a fixed interest rate of 5.95% per annum, with monthly payments of principal and interest, and a balance of \$10,500,164 due on December 1, 2013. The loan is nonrecourse to the Partnership.	10,626,004	10,747,897
Mortgage loan with a fixed interest rate of 5.06% per annum, with monthly payments of principal and interest, and a balance of \$33,068,178 due on September 1, 2015. The loan is nonrecourse to the Partnership.	34,989,777	35,390,779
Mortgage loans with a fixed interest rate of 5.39% per annum, with monthly payments of principal and interest, and a balance of \$35,695,293 due on March 1, 2021. The loans are nonrecourse to the Partnership.	41,476,534	41,780,437
Mortgage loan with a fixed interest rate of 5.18% per annum, with monthly payments of principal and interest, and a balance of \$26,231,655 due on June 5, 2021. The loan is nonrecourse to the Partnership.	31,061,774	31,305,500
	307,752,707	312,017,375
Premiums and discounts on assumed mortgages payable	3,211,097	3,613,963
<b>Total</b>	<b>\$ 310,963,804</b>	<b>\$ 315,631,338</b>



**Table of Contents**

The mortgages payable are secured by deeds of trust on certain of the properties and assignments of rents.

In accordance with the Partnership Agreement, the Partnership generally may not incur additional debt if total debt of the Partnership would exceed 30% (50% with the approval of the Partnership's advisory board) of the sum of the aggregate adjusted fair value of all Partnership's investments, less permitted investments in the REIT, as defined. At June 30, 2013 and December 31, 2012, the Partnership was in compliance with all requirements.

Future maturities of the principal balances of the notes payable as of June 30, 2013, are as follows:

<b>Years Ending</b>	
<b>December 31</b>	
2013 (Six Months Ending December 31, 2013)	\$ 79,433,568
2014	6,472,570
2015	77,055,390
2016	4,354,005
2017	4,641,634
Thereafter	135,795,540
<b>Total</b>	<b>\$ 307,752,707</b>

At June 30, 2013 and December 31, 2012, accrued interest payable of \$1,237,573 and \$1,268,598, respectively, is included with accounts payable and accrued expenses.

**7. UNSECURED REVOLVING LINE OF CREDIT**

In February 2012, the Partnership entered into an unsecured revolving line of credit with an unrelated financial institution, which allows for maximum borrowings of \$100,000,000. Borrowings under the line of credit are limited by certain borrowing base calculations. Outstanding advances under the line of credit bear interest at the base rate, as defined, plus 0.75% to 1.50% or LIBOR plus 1.75% to 2.50%, depending on the maximum consolidated leverage ratio, as defined. The line of credit is also subject to an unused commitment fee of 0.25% or 0.35% depending on the amount of aggregate unused commitments. The line of credit contains various restrictions and covenants, including the Partnership maintaining a minimum net asset value of \$1,000,000,000 and a fixed-charge coverage rate of not less than 1.5:1.0. The line of credit matures in February 2016, with a one-year extension option under certain conditions. As of June 30, 2013 and December 31, 2012, \$56,000,000 and \$30,000,000, respectively, was outstanding under the line of credit, and \$44,000,000 and \$70,000,000, respectively, was available for future borrowings. The line of credit also contains various covenants. At June 30, 2013 and December 31, 2012, the Partnership was in compliance with all covenants.

The Partnership expects to close on a term loan with the same bank syndicate as the unsecured revolving line of credit in late August 2013, which will provide an additional \$125,000,000 of borrowing capacity. The unsecured term loan matures six months from the closing date, as defined, subject to two 3-month extension options which are subject to certain conditions.

At June 30, 2013 and December 31, 2012, accrued interest payable and unused commitment fee payable of \$115,035 and \$81,765, respectively, is included with accounts payable and accrued expenses.

**8. RELATED-PARTY TRANSACTIONS**

CIM Urban REIT Management, LP (the Management Company), an affiliate of REIT GP, provides asset management services to the Partnership. For these services, the Partnership pays asset management fees to



**Table of Contents**

the Management Company, on a quarterly basis, in arrears. The fee is calculated as a percentage of the daily average gross fair value of the Partnership's investments, as defined, as follows:

Daily Average Gross Fair Value of Investments		Quarterly
From Greater of	To and Including	Fee Percentage
\$	\$ 500,000,000	0.2500%
500,000,000	1,000,000,000	0.2375
1,000,000,000	1,500,000,000	0.2250
1,500,000,000	4,000,000,000	0.2125
4,000,000,000	20,000,000,000	0.1000

For the three months ended June 30, 2013 and 2012, the Management Company earned asset management fees of \$5,431,502 and \$5,195,873, respectively and \$10,839,931 and \$10,451,176 for the six months ended June 30, 2013 and 2012, respectively. At June 30, 2013 and December 31, 2012, asset management fees of \$5,526,957 and \$5,206,426, respectively, were due to the Management Company. CIM Group, LP, an affiliate of REIT GP, provides property management, leasing, and development services to the Partnership. For the three months ended June 30, 2013 and 2012, CIM Group, LP earned property management fees, which are included in rental operating expenses, totaling \$1,182,741 and \$1,017,812, respectively and \$2,329,935 and \$1,834,988 for the six months ended June 30, 2013 and 2012, respectively. For the three months ended June 30, 2013 and 2012, CIM Group, LP earned property management fees, which are included in hotel operating expenses, totaling \$32,453 and \$0, respectively and \$32,453 and \$0 for the six months ended June 30, 2013 and 2012, respectively. The Partnership also reimbursed CIM Group, LP \$955,285 and \$608,458 during the three months ended June 30, 2013 and 2012, respectively, and \$2,343,677 and \$876,179 during the six months ended June 30, 2013 and 2012, respectively, for the cost of on-site personnel incurred on behalf of the Partnership, which is included in rental operating expenses. In addition, CIM Group, LP earned leasing commissions of \$10,655 and \$442,233 for the three months ended June 30, 2013 and 2012, respectively and \$296,755 and \$562,911 for the six months ended June 30, 2013 and 2012, respectively, which were capitalized to deferred charges. In addition, CIM Group, LP earned development management fees of \$157,566 and \$358,263 for the three months ended June 30, 2013 and 2012, respectively and \$293,516 and \$618,904 for the six months ended June 30, 2013 and 2012, respectively which were capitalized to investments in real estate. At June 30, 2013 and December 31, 2012, fees payable and expense reimbursements due to CIM Group, LP of \$724,466 and \$843,246, respectively, are included in due to related parties. Also included in due to related parties as of June 30, 2013 and December 31, 2012, is \$(6,807) and \$15,484, respectively, due to CIM Group, LP and related parties. In addition, the noncontrolling interest owner of an office project was the property manager for that property for part of the six months ended June 30, 2012. The Partnership has also entered into contracts with third-party property management companies.

Certain of these management companies also provide leasing and construction supervision services, for which they are compensated in accordance with the agreements. Management fees incurred to the noncontrolling interest owner of an office project and third-party management company related to the rental properties totaled \$75,185 and \$160,313 for the three months ended June 30, 2013 and 2012, respectively and \$163,267 and \$504,739 for the six months ended June 30, 2013 and 2012, respectively.