

CIM Commercial Trust Corp  
Form 10-Q  
November 10, 2014

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One):

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-13610

**CIM COMMERCIAL TRUST CORPORATION**

(Exact name of registrant as specified in its charter)

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

**75-6446078**  
(I.R.S. Employer  
Identification No.)

**17950 Preston Road, Suite 600, Dallas, TX 75252**  
(Address of principal executive offices)

**(972) 349-3200**  
(Registrant's telephone number)

Indicate by check mark whether the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. YES  NO

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

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

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a  
smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). YES  NO

As of November 5, 2014, the Registrant had outstanding 97,581,598 shares of common stock, par value \$0.001 per share.

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## CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

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**PART I**  
**Financial Information**

**ITEM 1.**  
**Financial Statements**

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Table of Contents**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AS OF SEPTEMBER 30, 2014 AND DECEMBER 31, 2013****(In thousands, except share data)**

	September 30, 2014	December 31, 2013
	(Unaudited)	
<b>ASSETS</b>		
Investments in real estate net	\$ 1,701,235	\$ 1,682,165
Cash and cash equivalents	30,609	16,796
Restricted cash	9,192	6,672
Loans receivable net	191,854	
Accounts receivable and interest receivable net	12,051	9,303
Deferred rent receivable and charges net	95,660	87,606
Other intangible assets net	23,011	22,282
Other assets	15,873	9,653
TOTAL ASSETS	\$ 2,079,485	\$ 1,834,477
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Debt	\$ 624,247	\$ 395,105
Accounts payable and accrued expenses	28,455	26,109
Intangible liabilities net	8,588	8,800
Due to related parties	9,518	6,807
Other liabilities	26,489	21,173
Total liabilities	697,297	457,994
<b>COMMITMENTS AND CONTINGENCIES (Note 14)</b>		
<b>EQUITY:</b>		
Common stock, \$0.001 and \$0.05 par value; 200,000,000 and 20,000,000 shares authorized; 97,688,863 and 4,400,000 shares issued; and 97,581,598 and 4,400,000 shares outstanding at September 30, 2014 and December 31, 2013, respectively	98	220
Preferred stock, \$0.01 par value, none and 65,028,571 shares outstanding at September 30, 2014 and December 31, 2013, respectively		650
Additional paid-in capital	1,824,028	1,772,821
Distributions in excess of earnings	(439,752)	(399,953)
Stockholders' equity before treasury stock	1,384,374	1,373,738

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Less: Treasury stock, at cost, 107,265 shares outstanding at September 30, 2014		(4,901)	
Total stockholders' equity	1,379,473		1,373,738
Noncontrolling interests	2,715		2,745
Total equity	1,382,188		1,376,483
TOTAL LIABILITIES AND EQUITY	\$ 2,079,485	\$	1,834,477

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

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**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)			
<b>REVENUES:</b>				
Rental and other property income	\$ 59,305	\$ 54,323	\$ 179,931	\$ 165,458
Expense reimbursements	3,345	2,590	8,342	7,637
Interest and other income	5,545	574	15,503	2,538
	68,195	57,487	203,776	175,633
<b>EXPENSES:</b>				
Rental and other property operating	30,996	25,872	91,021	75,825
Asset management fees and other fees to related parties	6,476	5,442	18,551	16,282
Interest	5,451	4,611	14,607	14,013
General and administrative	3,157	564	7,946	1,821
Transaction costs	46	2,619	546	4,013
Depreciation and amortization	17,677	16,620	51,592	51,290
	63,803	55,728	184,263	163,244
Bargain purchase gain (Note 2)			4,918	
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	4,392	1,759	24,431	12,389
Provision for income taxes	(112)		(420)	
<b>NET INCOME</b>	4,280	1,759	24,011	12,389
Net loss (income) attributable to noncontrolling interests	5	6	(108)	(103)
<b>NET INCOME ATTRIBUTABLE TO STOCKHOLDERS</b>	\$ 4,285	\$ 1,765	\$ 23,903	\$ 12,286
<b>COMPREHENSIVE INCOME</b>	\$ 4,285	\$ 1,765	\$ 23,903	\$ 12,286

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NET INCOME PER SHARE:

Basic	\$	0.04	\$	0.02	\$	0.25	\$	0.13
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Diluted	\$	0.04	\$	0.02	\$	0.25	\$	0.13
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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

Basic	97,582	95,440	97,035	95,440
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Diluted	97,583	95,440	97,039	95,440
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The accompanying notes are an integral part of these consolidated financial statements.



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	Nine Months Ended September 30, 2013								
	Common Stock Outstanding	Common Stock Par Value	Preferred Stock Outstanding	Preferred Stock Par Value	Additional Paid-in Capital	Distributions In Excess Of Earnings	Treasury Stock	Noncontrolling Interests	Total Equity
<b>Balances, January 1, 2013</b>	4,400,000	\$ 220	65,028,571	\$ 650	\$ 1,772,789	\$ (310,384)	\$	2,798	\$ 1,466,073
Contributions					32				32
Distributions						(83,035)		(150)	(83,185)
Net income						12,286		103	12,389
<b>Balances, September 30, 2013</b>	4,400,000	\$ 220	65,028,571	\$ 650	\$ 1,772,821	\$ (381,133)	\$	2,751	\$ 1,395,309

	Nine Months Ended September 30, 2014								
	Common Stock Outstanding	Common Stock Par Value	Preferred Stock Outstanding	Preferred Stock Par Value	Additional Paid-in Capital	Distributions In Excess Of Earnings	Treasury Stock	Noncontrolling Interests	Total Equity
<b>Balances, January 1, 2014</b>	4,400,000	\$ 220	65,028,571	\$ 650	\$ 1,772,821	\$ (399,953)	\$	2,745	\$ 1,376,483
Distributions pre-merger						(16,100)			(16,100)
Contributions from noncontrolling interests								10	10
Distributions to noncontrolling interests								(148)	(148)
Reverse acquisition capital transaction	2,119,244	111			49,400		(4,901)		44,610
Conversion of preferred stock to common stock	91,039,999	910	(65,028,571)	(650)	(260)				
Change in par value		(1,143)			1,143				
Exercise of stock options	14,500				201				201
Stock based compensation expense	8,000				726				726
Retirement of fractional shares	(145)				(3)				(3)
Common dividends (\$0.4875 per share)						(43,017)			(43,017)
Preferred dividends (\$0.0705 per share)						(4,585)			(4,585)
Net income						23,903		108	24,011

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Balances, September 30,  
2014 97,581,598 \$ 98 \$ \$ 1,824,028 \$ (439,752) \$ (4,901) \$ 2,715 \$ 1,382,188

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

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	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 24,011	\$ 12,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent and amortization of intangible assets, liabilities and lease inducements	(3,141)	(6,911)
Depreciation and amortization	51,592	51,290
Bargain purchase gain	(4,918)	
Gain on settlement of a contractual obligation	(1,166)	
Straight line rent, below-market ground lease and amortization of intangible assets	1,430	1,400
Amortization of deferred loan costs	1,427	493
Amortization of premiums and discounts on debt	(841)	(621)
Unrealized premium adjustment	1,356	
Amortization and accretion on loans receivable net	(3,153)	
Bad debt expense	263	491
Deferred income taxes	(60)	
Stock-based compensation	726	
Loans funded, held for sale	(25,288)	
Proceeds from sale of guaranteed loans	16,700	
Principal collected on loans	2,830	
Other operating activity	(467)	
Changes in operating assets and liabilities:		
Accounts receivable and interest receivable	(2,256)	(6,775)
Other assets	(1,573)	(1,475)
Accounts payable and accrued expenses	(2,015)	3,121
Deferred leasing costs	(6,836)	(3,599)
Other liabilities	1,031	(302)
Due to related parties	2,711	116
<b>Net cash provided by operating activities</b>	<b>52,363</b>	<b>49,617</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to investments in real estate	(19,192)	(15,767)
Acquisition of real estate properties	(44,936)	
Loans funded	(11,269)	
Cash and cash equivalents acquired in connection with the merger	3,185	
Principal collected on loans	35,044	
Restricted cash	(2,520)	1,986
Other investing activity	256	
<b>Net cash used in investing activities</b>	<b>(39,432)</b>	<b>(13,781)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of mortgages payable	(4,811)	(82,139)
Proceeds from unsecured credit facilities	524,700	115,500

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Payment of unsecured credit facilities	(393,400)	
Payment of principal on secured borrowings government guaranteed loans	(2,830)	
Proceeds from secured borrowings government guaranteed loans	5,887	
Payment of deferred loan costs	(5,736)	(253)
Payment of dividends	(47,602)	
Payment of special dividend and dividend assumed in acquisition	(59,286)	
Distributions pre-merger	(16,100)	(83,035)
Contributions		32
Contributions from noncontrolling interests	10	
Proceeds from issuance of stock	201	
Retirement of fractional shares of common stock	(3)	
Noncontrolling interests' distributions	(148)	(150)

Net cash provided by (used in) financing activities	882	(50,045)
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<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>13,813</b>	<b>(14,209)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	16,796	31,514

End of period	\$ 30,609	\$ 17,305
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### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$ 14,191	\$ 14,386
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Federal income taxes paid	\$ 487	\$
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### SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Additions to investments in real estate included in accounts payable and accrued expenses	\$ 1,573	\$ 4,118
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Additions to deferred loan costs included in accounts payable and accrued expenses	\$ 38	\$
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The accompanying notes are an integral part of these consolidated financial statements.

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**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)**

**1. ORGANIZATION AND OPERATIONS**

CIM Commercial Trust Corporation ("CIM Commercial") or together with its wholly-owned subsidiaries, "we," "us" or "our," primarily acquires, owns, and operates Class A and creative office properties in vibrant and improving urban communities throughout the U.S. These communities are located in areas that include traditional downtown areas and urban main streets, which have high barriers to entry, high population density, improving demographic trends and a propensity for growth. We also obtain income from the yield and other related fee income earned on our investments from our lending activities, which have principally been to borrowers in the hospitality industry. We were originally organized in 1993 as PMC Commercial Trust ("PMC Commercial"), a Texas real estate investment trust.

On April 28, 2014, PMC Commercial's charter was amended to increase the authorized shares of common stock of PMC Commercial from 100,000,000 to 1,000,000,000 shares (20,000,000 and 200,000,000 after giving effect to the reverse stock split described below) and PMC Commercial changed its state of incorporation (the "Reincorporation") from Texas to Maryland by means of a merger of PMC Commercial with and into a newly formed, wholly-owned subsidiary Maryland corporation. In addition, we changed our name to CIM Commercial Trust Corporation on April 29, 2014. Our common stock ("Common Stock") is currently traded on the NASDAQ Global Market (symbol "CMCT").

On April 28, 2014, we filed Articles of Amendment (the "Reverse Split Amendment") to effectuate a one-for-five reverse stock split of the Common Stock, effective April 29, 2014. Pursuant to the reverse stock split, each five shares of Common Stock issued and outstanding immediately prior to the effective time of the reverse stock split were converted into one (1) share of Common Stock. Fractional shares of Common Stock were not issued as a result of the reverse stock split; instead, holders of pre-split shares of Common Stock who otherwise would have been entitled to receive a fractional share of Common Stock received an amount in cash equal to the product of the fraction of a share multiplied by the closing price of the Common Stock (as adjusted for the one-for-five reverse stock split) on April 28, 2014. In connection with and immediately following the filing of the Reverse Split Amendment, the Company filed Articles of Amendment (the "Par Value Amendment") to decrease the par value of the Common Stock issued and outstanding to \$0.001 per share, effective April 29, 2014, subsequent to the effective time of the Reverse Split Amendment. All per share and outstanding share information has been presented to reflect the reverse stock split.

CIM Commercial has qualified and intends to continue to qualify as a REIT, as defined in the Internal Revenue Code of 1986, as amended.

**2. MERGER**

On July 8, 2013, our predecessor, PMC Commercial, entered into a merger agreement (the "Merger Agreement") with CIM Urban REIT, LLC ("CIM Urban REIT") and subsidiaries of the respective parties. CIM Urban REIT was a private commercial REIT and was the owner of CIM Urban Partners, LP ("CIM Urban"). The transaction (the "Merger") was completed on March 11, 2014 (the "Acquisition Date").

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**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)**

**2. MERGER (Continued)**

The Merger Agreement provided for a business combination between PMC Commercial and CIM Urban. Pursuant to the Merger Agreement, PMC Commercial issued 4,400,000 shares of Common Stock and 65,028,571 shares of preferred stock. Each share of preferred stock converted into 1.4 shares of Common Stock (as adjusted for the one-for-five reverse stock split) in April 2014, resulting in the issuance of approximately 91,039,999 shares of Common Stock. This represented approximately 97.8% of PMC Commercial's outstanding stock on the Acquisition Date.

All Common Stock that was outstanding immediately prior to the closing of the Merger remained outstanding following the Acquisition Date. In addition, stockholders of record at the close of the business day prior to the Acquisition Date received a special cash dividend of \$27.50 per share of Common Stock, which was paid on March 25, 2014.

The Merger was accounted for as a reverse acquisition under the acquisition method of accounting with CIM Urban considered to be the accounting acquirer based upon the terms of the Merger Agreement. Based on the determination that CIM Urban was the accounting acquirer in the transaction, CIM Urban allocated the purchase price to the fair value of PMC Commercial's assets and liabilities as of the Acquisition Date.

Accordingly, the accompanying financial statements (1) include the historical financial information for CIM Urban for all periods presented, (2) include the assets and liabilities of PMC Commercial acquired on March 11, 2014 and still owned or held by us in the consolidated balance sheet as of September 30, 2014 and (3) include the results of PMC Commercial's operations and cash flows in the consolidated statements of operations and comprehensive income and cash flows for the period from the Acquisition Date through September 30, 2014. The equity of CIM Commercial is the historical equity of CIM Urban retroactively restated to reflect the number of shares of stock issued by PMC Commercial pursuant to the Merger Agreement. In connection with the reverse acquisition, for purposes of presenting equity for CIM Commercial, the historical stockholders of PMC Commercial were deemed to have been issued 2,119,244 shares of Common Stock (2,226,509 shares of Common Stock, less 107,265 shares of treasury stock) on the Acquisition Date.

**Consideration Transferred** The fair value of the consideration transferred in the reverse acquisition is determined based on the number of shares of stock the accounting acquirer would have to issue to the stockholders of the accounting acquiree in order to provide the same ratio of ownership in the combined entity following the completion of the Merger, and was determined to be the outstanding stock of PMC Commercial as of the Acquisition Date. The fair value of the consideration transferred was based on the most reliable measure, which was determined to be the market price of PMC Commercial stock as of the Acquisition Date. The computation of the fair value of the

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## CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)**2. MERGER (Continued)**

consideration transferred, based on the market price of PMC Commercial stock on the Acquisition Date, is as follows:

	(in thousands, except per share data)
PMC Commercial common stock outstanding	2,119
Equity consideration price per share of common stock	\$ 21.05
Fair value of the equity consideration	44,610
Payment in cash special dividend	58,279
Total purchase price	\$ 102,889

**Purchase Price Allocation** As CIM Urban was the accounting acquirer in the business combination, it has allocated the purchase price to PMC Commercial's individually identifiable assets acquired and liabilities assumed based on their estimated fair values on the Acquisition Date. A bargain purchase gain was recorded as of the Acquisition Date in the amount equal to the excess of the fair value of the identifiable net assets acquired over the total purchase price.

The following table summarizes the allocation of the purchase price:

	(in thousands)
<b>Assets</b>	
Cash and cash equivalents	\$ 3,185
Loans receivable	207,140
Accounts receivable and interest receivable	755
Other assets	5,396
Intangible assets	2,957
Total assets acquired	219,433
<b>Liabilities</b>	
Debt	99,849
Accounts payable and accrued expenses	7,396
Special dividend liability and dividend payable	59,286
Other liabilities	3,374
Total liabilities assumed	169,905

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Net identifiable assets acquired	49,528
Bargain purchase gain	(4,918)

Net purchase price	\$	44,610
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## CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)**2. MERGER (Continued)**

**Pro Forma Financial Information** The following pro forma consolidated results for the nine months ended September 30, 2014 and 2013 assume the business combination was completed as of January 1, 2013:

	Nine Months Ended September 30,	
	2014	2013
	(in thousands, except per share amounts)	
Pro forma revenues	\$ 207,111	\$ 191,361
Pro forma net income	\$ 18,608	\$ 19,003
Pro forma basic earnings per share	\$ 0.19	\$ 0.20
Pro forma diluted earnings per share	\$ 0.19	\$ 0.20

The pro forma amounts include the historical operating results of CIM Urban and PMC Commercial prior to the business combination, with adjustments directly attributable to the business combination. The pro forma results for the nine months ended September 30, 2014 exclude transaction costs of \$3,046,000, a one-time gain of \$1,166,000 relating to the settlement of a contractual obligation, and the \$4,918,000 bargain purchase gain recorded on the Acquisition Date.

**3. 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 3 to CIM Urban's consolidated financial statements for the year ended December 31, 2013, included in our Current Report on Form 8-K/A dated May 9, 2014.

**Interim Financial Information** The accompanying interim consolidated financial statements of CIM Commercial 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 consolidated financial statements do not include all of the information and notes required by U.S. 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 three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Our accompanying interim consolidated financial statements should be read in conjunction with CIM Urban's audited consolidated financial statements and the notes thereto, included in our Current Report on Form 8-K/A dated May 9, 2014.

**Principles of Consolidation** The consolidated financial statements include the accounts of CIM Commercial and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

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## CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)

## 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investments in Real Estate** Real estate acquisitions are recorded at cost as of the acquisition date. 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 a quarterly basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount 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 nine months ended September 30, 2014 and 2013.

**Loans Receivable** We primarily originate loans to small businesses collateralized by first liens on the real estate of the related business. Loans receivable are carried at their unamortized principal balance less unamortized acquisition discounts and loan loss reserves, if applicable, and adjusted for capitalized loan origination costs. For loans originated under the Small Business Administration's (the "SBA") 7(a) Guaranteed Loan Program (the "SBA 7(a) Program") upon sale of the SBA guaranteed portion of the loans which are accounted for as sales, the unguaranteed portion of the loan retained by us is valued on a fair value basis and a discount is recorded as a reduction in basis of the retained portion of the loan.

We have a quarterly review process to identify and evaluate potential exposure to loan losses. Loans that require specific identification review are identified based on one or more negative characteristics including, but not limited to, non-payment or lack of timely payment of principal and/or interest or property taxes or deterioration of the physical property. The specific identification process begins with management's evaluation of the estimated fair value of the loan utilizing the present value of the expected future cash flows discounted at the loan's effective interest rate and/or an estimation of underlying collateral values. The probability of loss is then determined based on various factors including our historical experience with similar borrowers and/or individual borrower or collateral characteristics, and in certain circumstances, the strength of the guarantors. The liquidation probability is then applied to the identified loss exposure to determine the general or specific reserve for that loan.

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**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)**

**3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

At the Acquisition Date, the carrying value of our loans was adjusted to estimated fair market value and acquisition discounts of \$33,907,000 were recorded, which are being accreted to interest income using the effective interest method. We establish a general loan loss reserve when available information indicates that it is probable a loss has occurred based on the carrying value of the portfolio and the amount of the loss can be reasonably estimated. Significant judgment is required in determining the general loan loss reserve, including estimates of the likelihood of default and the estimated fair value of the collateral. The general loan loss reserve includes those loans, which may have negative characteristics which have not yet become known to us. In addition to the reserves established on loans not considered impaired that have been evaluated under a specific evaluation, the general loan loss reserve uses a consistent methodology to determine a loss percentage to be applied to loan balances. These loss percentages are based on many factors, primarily cumulative and recent loss history and general economic conditions.

We recognized interest income and fees for the three and nine months ended September 30, 2013, related to a first mortgage note on a hotel located near the Los Angeles Airport ("LAX") of \$0 and \$316,000, respectively. On October 8, 2013, we submitted the highest bid at a foreclosure auction and took possession of the hotel. The mortgage note investment basis was transferred to the property components at their relative fair values on title transfer.

**Deferred Rent Receivable and Charges** Deferred rent receivable and charges consist of deferred rent, deferred loan costs and deferred leasing costs. Deferred rent receivable is \$51,911,000 and \$49,543,000 at September 30, 2014, and December 31, 2013, respectively. 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 \$7,686,000 and \$3,865,000 are presented net of accumulated amortization of \$1,211,000 and \$1,737,000 at September 30, 2014, and December 31, 2013, 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 \$62,662,000 and \$55,826,000 are presented net of accumulated amortization of \$25,388,000 and \$19,891,000 at September 30, 2014, and December 31, 2013, respectively.

**Noncontrolling Interests** Noncontrolling interests represent interests in the various properties not owned by us.

**Consolidation Considerations for Our Investments in Real Estate** Accounting Standards Codification ("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

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**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

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**AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
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**3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**Reclassifications** Certain prior-period amounts have been reclassified to conform with the current-period presentation. For the three and nine months ended September 30, 2013, hotel revenues of \$8,564,000 and \$28,696,000, respectively, have been reclassified to rental and other property income, other income of \$566,000 and \$2,206,000, respectively, has been reclassified to interest and other income, and hotel operating expenses of \$6,324,000 and \$19,805,000, respectively, have been reclassified to rental and other property operating expenses.

**Recently Issued Accounting Pronouncements** In April 2014, the Financial Accounting Standards Board ("the FASB") issued Accounting Standards Update ("ASU") No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360). Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which amends the definition of a discontinued operation and requires entities to provide additional disclosures about disposal transactions that do not meet the discontinued-operations criteria. The revised guidance is effective prospectively to all disposals (or classifications as held for sale) that occur in annual periods (and interim periods therein) beginning on or after December 15, 2014, with early adoption permitted. Entities are prohibited from applying the new ASU to any component, equity method investment, or acquired business that is classified as held for sale before the adoption date. We early adopted this guidance during the second quarter of 2014, and the adoption did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including the guidance on real estate de-recognition for most transactions. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. The modified approach provides entities relief from having to restate and present comparable prior-year financial statement information; however, entities will still need to evaluate existing contracts as of the date of initial adoption under the ASU to determine whether a cumulative adjustment is necessary. We are currently in the process of evaluating the impact of adoption of the new accounting guidance on our consolidated financial statements.

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)****3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In August 2014, the FASB issued ASU No. 2014-15 *Presentation of Financial Statements - Going Concern (Subtopic 205-40)* which requires an entity's management to evaluate whether there are conditions or events, when considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued. The ASU is effective for the annual reporting period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

**4. ACQUISITIONS**

The fair value of real estate acquired is recorded to (1) the acquired tangible assets, consisting of land; land improvements; building and improvements; furniture, fixtures, and equipment; tenant improvements; and (2) 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 rate 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.

During the nine months ended September 30, 2014, we acquired a 100% fee-simple interest in an office building located in Los Angeles from an unrelated third party. Built in 1984, the building has approximately 143,000 square feet of rentable space and is located in the Mid-Wilshire submarket of Los Angeles. The acquisition was funded with proceeds from a drawdown on one of CIM Urban's unsecured credit facilities.

Property	Asset Type	Date of Acquisition	Number of Buildings	Rentable Square Feet	Purchase Price
4750 Wilshire Blvd., Los Angeles, CA	Office	April 18, 2014	1	143,000	\$ 44,936

(in thousands)

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)****4. ACQUISITIONS (Continued)**

The results of the operations of the property acquired have been included in the consolidated statements of operations from the date of acquisition. The fair value of the assets acquired and liabilities assumed for the above-noted acquisition during the nine months ended September 30, 2014 are as follows:

	<b>2014 Acquisition (in thousands)</b>	
Land	\$	16,633
Land improvements		348
Building and improvements		27,947
Tenant improvements		691
Acquired in-place leases(1)		1,087
Acquired below-market leases(2)		(1,770)
Net assets acquired	\$	44,936

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(1) In-place leases have a weighted average amortization period of 5.0 years.

(2) Below-market leases have a weighted average amortization period of 5.0 years.

Acquisition related expenses of \$32,000 associated with the acquisition of real estate in 2014 were expensed as incurred during the nine months ended September 30, 2014. No acquisitions of real estate were made during the nine months ended September 30, 2013. However, during the three and nine months ended September 30, 2013, we expensed as incurred \$1,393,000 of costs related to the foreclosure of a hotel secured by a mortgage note receivable (Note 3), which was finalized in October 2013.

**5. INVESTMENTS IN REAL ESTATE**

Investments in real estate consist of the following:

	<b>September 30, 2014</b>		<b>December 31, 2013</b>	
	<b>(in thousands)</b>			
Land	\$	347,693	\$	331,060
Land improvements		27,884		27,536
Buildings and improvements		1,488,105		1,454,854
Furniture, fixtures, and equipment		23,508		23,051
Tenant improvements		199,236		183,915
Work in progress		6,868		9,987

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Investments in real estate	2,093,294	2,030,403
Accumulated depreciation	(392,059)	(348,238)
Net investments in real estate	\$ 1,701,235	\$ 1,682,165

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## CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)**6. LOANS RECEIVABLE**

Loans receivable consist of the following:

	September 30, 2014 (in thousands)
Commercial mortgage loans	\$ 112,484
SBA 7(a) loans, subject to secured borrowings	43,104
SBA 7(a) loans	36,029
Loans receivable	191,617
Deferred capitalized costs	237
Net loans receivable	\$ 191,854

**Commercial mortgage loans** Represents loans to small businesses primarily collateralized by first liens on the real estate of the related business.

**SBA 7(a) loans, subject to secured borrowings** Represents the government guaranteed portion of loans which were sold with the proceeds received from the sale reflected as secured borrowings government guaranteed loans (included in debt on our consolidated balance sheet). There is no credit risk associated with these loans since the SBA has guaranteed payment of the principal.

**SBA 7(a) loans** Represents the non-government guaranteed retained portion of loans originated under the SBA 7(a) Program and the government guaranteed portion of loans that have not yet been fully funded or sold.

**Aging** The following table represents an aging of our "Loans Receivable Subject to Credit Risk" (loans receivable less SBA 7(a) loans, subject to secured borrowings as the SBA has guaranteed payment of the principal).

September 30, 2014	Commercial Mortgage Loans		SBA 7(a) Loans		Totals	
	(dollars in thousands)					
Current	\$ 112,484	100.0%	\$ 35,871	99.6%	\$ 148,355	99.9%
Between 29 and 59 days delinquent			158	0.4	158	0.1
Between 60 and 89 days delinquent						
Over 89 days delinquent						
	\$ 112,484	100.0%	\$ 36,029	100.0%	\$ 148,513	100.0%



**Loan Portfolio Classification** Management closely monitors our loans which require evaluation for loan loss reserves based on specific identification metrics which are classified into three categories: Doubtful, Substandard and Other Assets Especially Mentioned ("OAEM"). Loans classified as Doubtful are generally loans which are not complying with their contractual terms, the collection of the balance of the principal is considered impaired and on which the fair value of the collateral is less than the remaining unamortized principal balance. These loans are typically placed on non-accrual status and are generally in the foreclosure process. Loans classified as Substandard are generally those loans

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)****6. LOANS RECEIVABLE (Continued)**

that are either not complying or had previously not complied with their contractual terms and have other credit weaknesses which may make payment default or principal exposure likely but not yet certain. Loans classified as OAEM are generally loans for which the credit quality of the borrowers has temporarily deteriorated. Typically, the borrowers are current on their payments; however, they may be delinquent on their property taxes, insurance, or franchise fees or may be under agreements which provide for interest only payments during a short period of time.

Management has classified our Loans Receivable Subject to Credit Risk as follows:

September 30, 2014	Commercial Mortgage Loans		SBA 7(a) Loans		Totals	
	(dollars in thousands)					
Satisfactory	\$ 111,631	99.2%	\$ 35,423	98.3%	\$ 147,054	99.0%
OAEM			316	0.9	316	0.2
Substandard	853	0.8	133	0.4	986	0.7
Doubtful			157	0.4	157	0.1
	\$ 112,484	100.0%	\$ 36,029	100.0%	\$ 148,513	100.0%

**7. OTHER INTANGIBLE ASSETS**

A schedule of our intangible assets and liabilities and related accumulated amortization and accretion as of September 30, 2014, and December 31, 2013, is as follows:

September 30, 2014	Assets							Liabilities
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement	Advance Bookings	Franchise Affiliation Fee	Acquired Below-Market Ground Lease	Trade-Name and License	Acquired Below-Market Leases
	(in thousands)							
Gross balance	\$ 8,017	\$ 80,732	\$ 4,273	\$ 8,329	\$ 3,936	\$ 11,685	\$ 2,957	\$ (63,093)
Accumulated amortization	(7,574)	(75,251)	(1,634)	(8,329)	(2,883)	(1,247)		54,505
	\$ 443	\$ 5,481	\$ 2,639	\$	\$ 1,053	\$ 10,438	\$ 2,957	\$ (8,588)

Average useful life (in years)	4	6	8	3	10	84	Indefinite	6
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December 31, 2013	Assets					Liabilities		
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement	Advance Bookings	Franchise Affiliation Fee	Acquired Below-Market Ground Lease	Acquired Below-Market Leases	
	(in thousands)							
Gross balance	\$ 8,017	\$ 79,645	\$ 4,273	\$ 8,329	\$ 3,936	\$ 11,685	\$ (61,323)	
Accumulated amortization	(7,052)	(73,463)	(1,220)	(8,139)	(2,587)	(1,142)	52,523	
	\$ 965	\$ 6,182	\$ 3,053	\$ 190	\$ 1,349	\$ 10,543	\$ (8,800)	

Average useful life (in years)	4	5	8	3	10	84	6
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## CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)

## 7. OTHER INTANGIBLE ASSETS (Continued)

The amortization of the above-market leases which decreased rental and other property income were \$87,000 and \$184,000 for the three months ended September 30, 2014 and 2013, respectively and \$522,000 and \$580,000 for the nine months ended September 30, 2014 and 2013, respectively. The amortization of the below-market leases included in rental and other property income were \$637,000 and \$785,000 for the three months ended September 30, 2014 and 2013, respectively and \$1,982,000 and \$2,377,000 for the nine months ended September 30, 2014 and 2013, respectively. The amortization of in-place leases included in depreciation and amortization expense was \$589,000 and \$851,000 for the three months ended September 30, 2014 and 2013, respectively and \$1,788,000 and \$2,725,000 for the nine months ended September 30, 2014 and 2013, respectively. Included in depreciation and amortization expense are franchise affiliation fee amortization of \$98,000 for each of the three months ended September 30, 2014 and 2013, and \$296,000 for each of the nine months ended September 30, 2014 and 2013. The amortization of advance bookings included in depreciation and amortization expense was \$56,000 and \$0 for the three months ended September 30, 2014 and 2013, respectively and \$190,000 and \$0 for the nine months ended September 30, 2014 and 2013, respectively. Tax abatement amortization of \$138,000 for each of the three months ended September 30, 2014 and 2013 and \$414,000 for each of the nine months ended September 30, 2014 and 2013 are included in rental and other property operating expenses. Amortization of below-market ground lease obligation of \$35,000 for each of the three months ended September 30, 2014 and 2013 and \$105,000 for each of the nine months ended September 30, 2014 and 2013 are included in rental and other property operating expenses.

A schedule of future amortization and accretion of acquisition related intangible assets and liabilities as of September 30, 2014, is as follows:

Years Ending December 31,	Assets				Liabilities	
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement	Franchise Affiliation Fee	Acquired Below-Market Ground Lease	Acquired Below-Market Leases
	(in thousands)					
2014 (Three months ending December 31, 2014)	\$ 80	\$ 529	\$ 137	\$ 98	\$ 35	\$ (620)
2015	241	1,589	551	394	140	(2,430)
2016	88	1,094	551	394	140	(2,363)
2017	26	665	551	167	140	(2,260)
2018	8	415	551		140	(824)
Thereafter		1,189	298		9,843	(91)
	\$ 443	\$ 5,481	\$ 2,639	\$ 1,053	\$ 10,438	\$ (8,588)

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)****8. DEBT**

Information on our debt is as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
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 \$25,324,000 balance due on December 1, 2015. The loan is nonrecourse.	\$ 27,163	\$ 28,262
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 \$42,008,000 balance due on January 5, 2027. The loan is nonrecourse.	46,000	46,000
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 \$12,288,000 balance due on July 1, 2015. The loan is nonrecourse.	12,518	12,737
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 \$21,136,000 balance due on July 15, 2018. The loan is nonrecourse.	32,759	34,755
Mortgage loan with a fixed interest rate of 5.06% per annum, with monthly payments of principal and interest, and a balance of \$33,068,000 due on September 1, 2015. The loan is nonrecourse.	33,951	34,583
Mortgage loans with a fixed interest rate of 5.39% per annum, with monthly payments of principal and interest, and a balance of \$35,695,000 due on March 1, 2021. The loans are nonrecourse.	40,693	41,170
Mortgage loan with a fixed interest rate of 5.18% per annum, with monthly payments of principal and interest, and a balance of \$26,232,000 due on June 5, 2021. The loan is nonrecourse.	30,424	30,812
	223,508	228,319
Premiums and discounts on assumed mortgages	2,166	2,786
<b>Total Mortgages Payable</b>	<b>225,674</b>	<b>231,105</b>
Secured borrowing principal on loans sold for a premium and excess spread variable rate, reset quarterly, based on prime rate with weighted average coupon rate of 3.94%	35,242	
Secured borrowing principal on loans sold for excess spread, variable rate, reset quarterly, based on prime rate with weighted average coupon rate of 1.58%	5,117	
	40,359	
Premiums on loans sold for a premium and excess spread	3,325	
<b>Total Secured borrowings government guaranteed loans</b>	<b>43,684</b>	
	27,070	

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Junior subordinated notes with a variable interest rate which resets quarterly based on the 90-day LIBOR plus 3.25%, with quarterly interest payments due. Balance due at maturity on March 30, 2035.

Unsecured credit facilities	330,000	164,000
	357,070	164,000
Discount on junior subordinated notes	(2,181)	
<b>Total Other</b>	354,889	164,000
<b>Total Debt</b>	\$ 624,247	\$ 395,105

The mortgages payable are secured by deeds of trust on certain of the properties and assignments of rents.

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**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**8. DEBT (Continued)**

Secured borrowings represent sold SBA 7(a) Program loans which are treated as secured borrowings since the loan sales did not meet the derecognition criteria provided for in ASC 860-30, *Transfers and Servicing*. Principal payments are dependent upon cash flows received from the underlying loans. No payment is due unless payments are received from the borrowers on the underlying loans.

In September 2014, CIM Commercial entered into an \$850,000,000 unsecured credit facility with a bank syndicate consisting of a \$450,000,000 revolver, a \$325,000,000 term loan and a \$75,000,000 delayed-draw term loan. The credit facility can be upsized to \$1,150,000,000, under certain conditions. CIM Commercial is subject to certain financial maintenance covenants and a minimum property ownership condition. Outstanding advances under the revolver bear interest at the base rate, plus 0.20% to 1.00% or LIBOR plus 1.20% to 2.00%, depending on the maximum consolidated leverage ratio. Outstanding advances under the term loans bear interest at the base rate, plus 0.15% to 0.95% or LIBOR plus 1.15% to 1.95%, depending on the maximum consolidated leverage ratio. Upon CIM Commercial obtaining an investment grade credit rating for its long term, senior, unsecured non-credit enhanced debt, the applicable margin over the base rate or LIBOR will be based on CIM Commercial's credit rating. The revolver is also subject to an unused commitment fee of 0.15% or 0.25% depending on the amount of aggregate unused commitments. The delayed draw term loan is also subject to an unused line fee of 0.25%. The credit facility matures in September 2016 and provides for two one-year extension options under certain conditions. As of September 30, 2014, \$330,000,000 was outstanding under the credit facility and \$520,000,000 was available for future borrowings. Proceeds from the unsecured credit facility were used for general corporate purposes and to repay \$323,000,000 outstanding under our unsecured credit facilities.

In February 2012, CIM Urban entered into an unsecured revolving line of credit with a bank syndicate, which allowed for maximum borrowings of \$100,000,000. Borrowings under the line of credit were limited by certain borrowing base calculations. Outstanding advances under the line of credit bore 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, until August 2013. In August 2013, the unsecured revolving line was amended, and outstanding advances under the line bore 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 line of credit was also subject to an unused commitment fee of 0.25% or 0.35% depending on the amount of aggregate unused commitments. As of December 31, 2013, \$100,000,000 was outstanding under the line of credit and \$0 was available for future borrowings. This line of credit was terminated and repaid in full in September 2014.

In August 2013, CIM Urban entered into another unsecured revolving credit facility with a syndicate of banks. The credit facility provided an additional \$125,000,000 of borrowing capacity that was increased to \$150,000,000. CIM Urban amended the facility in April 2014 to further increase the maximum aggregate borrowing capacity under the revolving credit facility to \$200,000,000. Borrowings under the revolving credit facility were limited by certain borrowing base calculations. Outstanding advances under the revolving credit facility bore 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 revolving credit facility was also subject to an unused commitment fee of 0.25% or 0.35% depending on the amount of aggregate unused commitments. As of December 31, 2013, \$64,000,000 was outstanding under the revolving credit facility and \$61,000,000 was available for future borrowings. This line of credit was terminated and repaid in full in September 2014.

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At September 30, 2014 and December 31, 2013, CIM Commercial and CIM Urban, respectively, were in compliance with all of their respective financial covenants.

At September 30, 2014, and December 31, 2013, accrued interest and unused commitment fee payable of \$989,000 and \$1,017,000, respectively, is included in accounts payable and accrued expenses.

Future principal payments on our debt (face value) at September 30, 2014 are as follows:

Years Ending December 31,	Secured	Mortgages	All Other	Total
	Borrowings Principal(1)	Payable	Principal(2)	
	(in thousands)			
2014 (Three months ending December 31, 2014)	\$ 309	\$ 1,661	\$	\$ 1,970
2015	1,265	77,055		78,320
2016	1,309	4,354	330,000	335,663
2017	1,354	4,642		5,996
2018	1,403	24,300		25,703
Thereafter	34,719	111,496	27,070	173,285
	\$ 40,359	\$ 223,508	\$ 357,070	\$ 620,937

(1) Principal payments are generally dependent upon cash flows received from the underlying loans. Our estimate of their repayment is based on scheduled principal payments on the underlying loans. Our estimate will differ from actual amounts to the extent we experience prepayments and/or loan liquidations or charge-offs. No payment is due unless payments are received from the borrowers on the underlying loans.

(2) Represents the junior subordinated notes, and unsecured credit facility.

**9. STOCK-BASED COMPENSATION PLANS**

As of the Acquisition Date, we had 19,700 options outstanding under stock-based compensation plans. The options are fully vested, and were repriced as of the Acquisition Date. Of these options, 14,500 were exercised during the nine months ended September 30, 2014 for proceeds of approximately \$201,000.

We granted 11,850 options on June 12, 2014 at an exercise price of \$23.16 (the closing price of our Common Stock on such date). The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:



**Assumptions**

Expected term (years)	3.0
Risk-free interest rate	0.94%
Expected dividend yield	3.78%
Expected volatility	9.37%
Expected forfeiture rate	1.0%

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**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**9. STOCK-BASED COMPENSATION PLANS (Continued)**

The expected term of the options granted represents the period of time that the options are expected to be outstanding and was based on historical data. The risk-free rate was based on the three-year U.S. Treasury rate corresponding to the expected term of the options. We used historical information to determine our expected volatility and forfeiture rate. We recorded compensation expense of \$0 and \$8,000 during the three and nine months ended September 30, 2014, respectively, related to this option grant.

On April 28, 2014, our stockholders approved the First Amendment to the PMC Commercial Trust 2005 Equity Incentive Plan (the "Plan Amendment") to increase the aggregate number of shares of Common Stock thereunder from 100,000 to 300,000 shares and increase the annual limitation on restricted Common Stock grants to all independent directors in the aggregate to 100,000 restricted shares of Common Stock and to each executive officer to no more than 4,000 restricted shares of Common Stock during any fiscal year. On March 11, 2014, we granted Common Stock awards of 2,000 restricted shares of Common Stock to each of the independent members of the board of directors (the "Board of Directors") (6,000 in aggregate) which awards were effective upon the receipt of stockholder approval of the Plan Amendment. The shares of Common Stock vest based on a year of continuous service. Compensation expense related to these restricted shares of Common Stock is being recognized over the vesting period. We recorded compensation expense of \$32,000 and \$63,000 during the three and nine months ended September 30, 2014, respectively, related to these restricted shares of Common Stock.

We issued an aggregate of 2,000 restricted shares of Common Stock to two of our executive officers on May 6, 2014. The restricted shares of Common Stock vest based on two years of continuous service with one-third of the shares of Common Stock vesting immediately upon issuance and one-third vesting at the end of each of the next two years. Compensation expense related to these restricted shares of Common Stock is being recognized over the vesting period. We recognized compensation expense of \$5,000 and \$24,000 during the three and nine months ended September 30, 2014, respectively, related to these restricted shares of Common Stock.

In accordance with the employment agreements of two of our executive officers, to the extent the executive is employed by us on January 1, 2016 and such executive is not entitled to any disability, death or severance payments, the executive would be awarded restricted shares of Common Stock as a retention bonus which would vest immediately upon issuance. In aggregate, the executive officers would receive 105,000 Common Stock awards. We recorded compensation expense of \$316,000 and \$631,000 during the three and nine months ended September 30, 2014, respectively, related to these Common Stock awards.

As of September 30, 2014, there was \$1,664,000 of total unrecognized compensation expense related to shares of Common Stock which will be recognized over the next fifteen months.

**10. EARNINGS PER SHARE ("EPS")**

The computations of basic EPS are based on our weighted average shares outstanding. During the three and nine months ended September 30, 2014, the weighted average shares outstanding were increased by 1,000 and 4,000 shares, respectively, to reflect the dilutive effect of stock options. Not included in the computation of diluted EPS were outstanding options to purchase 11,850 shares of

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**10. EARNINGS PER SHARE ("EPS") (Continued)**

Common Stock during the three and nine months ended September 30, 2014, because the options' exercise prices were greater than the average market price of the shares.

For purposes of calculating basic EPS for the three and nine months ended September 30, 2013, the 65,028,571 shares of preferred stock issued in connection with the Merger have been assumed to have been converted into 91,039,999 shares of Common Stock. As of the Acquisition Date, a subsidiary of CIM Urban REIT had agreed to vote its 97.8% post-Merger ownership of CIM Commercial in favor of an increase in the number of authorized CIM Commercial shares of Common Stock to one billion (200,000,000 after giving effect to the reverse stock split), thereby satisfying the condition for the automatic conversion of these shares. The actual conversion of the shares of preferred stock to shares of Common Stock occurred on April 29, 2014.

**11. DIVIDENDS DECLARED**

CIM Urban paid a distribution of \$16,100,000 prior to the Acquisition Date (\$0.1685 per share of Common Stock, as converted). In addition, dividends of \$59,286,000 (\$27.975 per share of Common Stock) were paid to the PMC Commercial stockholders, which includes the \$27.50 per share of Common Stock special dividend plus the \$0.475 pro rata portion of PMC Commercial's regular quarterly cash dividend.

On March 24, 2014, we declared a common share dividend of \$0.05 per share of Common Stock and a preferred dividend of \$0.0403 per share of preferred stock (\$0.0285 per share of Common Stock as converted) which were paid on March 28, 2014.

On April 28, 2014, we declared a dividend in the aggregate amount of \$1,964,000 to the preferred stockholders (\$0.0302 per share of preferred stock and \$0.0215 per share of Common Stock, as converted) in connection with the conversion of shares of preferred stock to shares of Common Stock, which was paid on June 27, 2014.

On June 12, 2014, we declared a common share dividend of \$0.21875 per share of Common Stock which was paid on June 27, 2014.

On September 12, 2014, we declared a common share dividend of \$0.21875 per share of Common Stock which was paid on September 29, 2014.

**12. 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

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)****12. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

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 estimated fair values of those financial instruments which are not recorded at fair value on a recurring basis on our consolidated balance sheets were as follows:

	September 30, 2014		December 31, 2013		Level
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	
(in thousands)					
<b>Assets:</b>					
Loans Receivable Subject to Credit Risk	\$ 148,673	\$ 148,444	\$	\$	3
SBA 7(a) loans receivable, subject to secured borrowings	43,181	44,006			3
<b>Liabilities:</b>					
Secured borrowings government guaranteed loans	43,684	43,684			3
Unsecured credit facilities	330,000	330,000	164,000	164,000	3
Junior subordinated notes	24,889	24,889			3
Mortgages payable	225,674	232,463	231,105	231,250	3

Management's estimation of the fair value of our financial instruments is based on a Level 3 valuation in the fair value hierarchy established for disclosure of how a company values its financial instruments. In general, quoted market prices from active markets for the identical financial instrument (Level 1 inputs), if available, should be used to value a financial instrument. If quoted prices are not available for the identical financial instrument, then a determination should be made if Level 2 inputs are available. Level 2 inputs include quoted prices for similar financial instruments in active markets for identical or similar financial instruments in markets that are not active (i.e., markets in which there are few transactions for the financial instruments, the prices are not current, price quotations vary substantially, or in which little information is released publicly). There is limited reliable market information for our financial instruments and we utilize other methodologies for valuation purposes since there are no Level 1 or Level 2 determinations available. Accordingly, Level 3 inputs are used to measure fair value.

In general, estimates of fair value may differ from the carrying amounts of the financial assets and liabilities primarily as a result of the effects of discounting future cash flows. Considerable judgment is required to interpret market data and develop estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts we could realize in a current market exchange.

**Loans Receivable Subject to Credit Risk** Loans receivable were initially recorded at estimated fair value at the Acquisition Date. Loans receivable originated subsequent to the Acquisition Date are recorded at cost upon origination and adjusted by net loan origination fees and discounts. In order to determine the estimated fair value of our loans receivable, we use a present value technique for the

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**12. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

anticipated future cash flows using certain assumptions including discount rates ranging from 8.50% to 15.00%, prepayment rates of 15.00% and potential credit deterioration ranging from 0% to 1.50%. Significant increases (decreases) in any of these inputs in isolation would result in significantly lower (higher) fair value measurements. In the absence of a readily ascertainable market value, the estimated value of our loans receivable will differ from the values that would be placed on the portfolio if a ready market for the loans receivable existed.

**SBA 7(a) loans receivable, subject to secured borrowings** Represents the government guaranteed portion of loans which were sold with the proceeds received from the sale reflected as a liability on our consolidated balance sheet. There is no credit risk associated with these loans since the SBA has guaranteed payment of the principal. In order to determine the estimated fair value of these loans receivable, we use a present value technique for the anticipated future cash flows taking into consideration the lack of credit risk using a prepayment rate of 15.00%.

**Junior subordinated notes** The fair value of the junior subordinated notes is estimated based on current interest rates available for debt instruments with similar terms. Discounted cash flow analysis is generally used to estimate the fair value of our junior subordinated notes. The rate used was 4.06% at September 30, 2014.

**Secured borrowings government guaranteed loans** The fair value of secured borrowings government guaranteed loans approximates current market interest rates. Includes the unamortized deferred cash premiums collected on the sale of the government guaranteed portions of the related loans.

**Unsecured credit facilities** The carrying amount is a reasonable estimation of fair value as the interest rate on the unsecured credit facilities are variable and are at current market interest rates.

**Mortgage notes payable** The fair values of mortgage notes are estimated based on current interest rates available 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 4.10% to 4.30% at September 30, 2014 and 4.85% to 5.00% at December 31, 2013.

**13. RELATED-PARTY TRANSACTIONS**

CIM Urban REIT Management, LP (the "Management Company"), an affiliate of CIM Urban REIT, provides asset management services to CIM Urban. For these services, CIM Urban pays asset

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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 our investments, as defined, as follows:

Daily Average Gross Fair Value of CIM Urban's Investments		Quarterly Fee Percentage	
From Greater of	To and Including		
(in thousands)			
\$	\$ 500,000	0.2500%	
	500,000	1,000,000	0.2375%
	1,000,000	1,500,000	0.2250%
	1,500,000	4,000,000	0.2125%
	4,000,000	20,000,000	0.1000%

The Management Company earned asset management fees of \$5,821,000 and \$5,442,000 for the three months ended September 30, 2014 and 2013, respectively and \$17,300,000 and \$16,282,000 for the nine months ended September 30, 2014 and 2013, respectively. At September 30, 2014, and December 31, 2013, asset management fees of \$5,798,000 and \$5,426,000, respectively, were due to the Management Company.

CIM Management, Inc. and certain of its affiliates (collectively, the "CIM Management Entities"), all affiliates of CIM Urban REIT, provide property management, leasing, and development services to CIM Urban. The CIM Management Entities earned property management fees, which are included in rental and other property operating expenses, totaling \$1,404,000 and \$1,172,000 for the three months ended September 30, 2014 and 2013, respectively and \$3,935,000 and \$3,534,000 for the nine months ended September 30, 2014 and 2013, respectively. CIM Urban also reimbursed the CIM Management Entities \$1,820,000 and \$1,143,000 during the three months ended September 30, 2014 and 2013, respectively and \$5,613,000 and \$3,487,000 during the nine months ended September 30, 2014 and 2013, respectively, for the cost of on-site personnel incurred on behalf of CIM Urban, which is included in rental and other property operating expenses. The CIM Management Entities earned leasing commissions of \$221,000 and \$89,000 for the three months ended September 30, 2014 and 2013, respectively and \$1,572,000 and \$386,000 for the nine months ended September 30, 2014 and 2013, respectively, which were capitalized to deferred charges. In addition, the CIM Management Entities earned development management fees of \$141,000 and \$147,000 for the three months ended September 30, 2014 and 2013, respectively and \$385,000 and \$441,000 for the nine months ended September 30, 2014 and 2013, respectively, which were capitalized to investments in real estate.

At September 30, 2014 and December 31, 2013, fees payable and expense reimbursements due to the CIM Management Entities of \$2,624,000 and \$1,445,000, respectively, are included in due to related parties. Also included in due to related parties as of September 30, 2014, and December 31, 2013, is \$29,000 and \$64,000, respectively, due from the CIM Management Entities and related parties. We have also entered into contracts with third-party property management companies.

Certain of these management companies also provide leasing and development management services, for which they are compensated in accordance with the agreements. Management fees incurred to third-party management companies related to the rental properties totaled \$401,000 and

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**13. RELATED-PARTY TRANSACTIONS (Continued)**

\$303,000 for the three months ended September 30, 2014 and 2013, respectively and \$1,212,000 and \$975,000 for the nine months ended September 30, 2014 and 2013, respectively, which were included in rental and other property operating expenses.

On the Acquisition Date, pursuant to the terms of the Merger Agreement, CIM Commercial and its lending subsidiaries entered into the Master Services Agreement (the "Master Services Agreement") with CIM Service Provider, LLC (the "Manager") pursuant to which the Manager agrees to provide or arrange for other service providers to provide management and administration services to CIM Commercial and its subsidiaries following the Merger. Pursuant to the Master Services Agreement, CIM Commercial pays a base service fee (the "Base Service Fee") to the Manager equal to \$1,000,000 per year (subject to an annual escalation by a specified inflation factor beginning on January 1, 2015), payable quarterly in arrears. The Base Service Fee began to accrue on the Acquisition Date and was pro-rated based on the number of days during the first quarter in which the Master Services Agreement was in effect. For the three and nine months ended September 30, 2014, the Manager earned a Base Service Fee of \$250,000 and \$556,000, respectively. In addition, pursuant to the terms of the Master Services Agreement, the Manager may receive compensation for performing certain services for CIM Commercial and its subsidiaries that are not covered under the Base Service Fee. During the nine months ended September 30, 2014, such services performed by the Manager included accounting, tax, reporting, internal audit, legal, compliance, risk management, IT, human resources and corporate communications. The Manager's compensation is based on the salaries and benefits of the employees of the Manager and/or its affiliates who performed these services (allocated based on the percentage of time spent on the affairs of CIM Commercial and its subsidiaries). For the three and nine months ended September 30, 2014, we expensed \$405,000 and \$695,000, respectively, for such services. At September 30, 2014, \$961,000 was due to the Manager. In addition, at September 30, 2014, reimbursement of \$118,000 for services paid by an affiliate of the Manager to third-party consultants who performed work on behalf of CIM Commercial and \$46,000 for out-of-pocket expenses incurred in connection with potential transactions on behalf of CIM Commercial is due to an affiliate of the Manager.

**14. COMMITMENTS AND CONTINGENCIES**

**Loan Commitments** Commitments to extend credit are agreements to lend to a customer provided the terms established in the contract are met. Our outstanding loan commitments and approvals to fund loans were \$20,800,000 at September 30, 2014, the majority of which were for prime-based loans to be originated by our SBA 7(a) subsidiary, the government guaranteed portion of which is intended to be sold. Commitments generally have fixed expiration dates. Since some commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements.

**General** In connection with the ownership and operation of real estate properties, we have certain obligations for the payment of tenant improvement allowances and lease commissions in connection with new leases and renewals.

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**14. COMMITMENTS AND CONTINGENCIES (Continued)**

**Employment Agreements** We have employment agreements with two of our executive officers. Under certain circumstances, as defined within the agreements, the agreements provide for (1) severance compensation or change in control payments to the executive officer in an amount equal to 2.99 times the average of the last three years annual compensation paid to the executive officer and (2) death and disability payments in an amount equal to two times and one time, respectively, the annual salary paid to the executive officer. In addition, to the extent the executive is employed by us on January 1, 2016 and such executive is not entitled to any disability, death or severance payments, the executive would receive restricted share awards as a retention bonus which would vest immediately upon grant. In aggregate, the executive officers would receive 105,000 share awards.

**Litigation** REIT Redux, L.P. et al v. CIM Commercial, et al. On October 9, 2013, a putative class action and derivative lawsuit was filed in the Dallas County Court at Law No. 5 in Dallas County, Texas against and purportedly on behalf of CIM Commercial. The plaintiffs alleged, among other things, that the CIM Commercial board breached its fiduciary duties by approving and recommending the merger to the shareholders, failing to maximize value for the shareholders, engaging in bad faith and self-dealing by preferring transactions that further enriched the trust managers at the expense of the shareholders and conspiring to deprive the shareholders of their voting power and prerogatives. The complaint alleged that CIM Urban REIT aided, abetted and induced those breaches of fiduciary duty.

CIM Commercial and CIM Urban REIT entered into various agreements with the plaintiffs to settle their claims, which agreements were effective as of January 28, 2014 and were approved by the court on April 4, 2014 (the "Settlement Agreement"). Under the terms of the Settlement Agreement, the Manager entered into a trading plan (the "Trading Plan") designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934 to provide for the purchase of up to 550,000 shares of CIM Commercial Common Stock at prices up to \$25.00 per share. The Trading Plan commenced on March 12, 2014 and expired on August 10, 2014. Pursuant to the Trading Plan, the Manager acquired approximately 254,000 shares of Common Stock. Additionally, CIM Commercial agreed to be responsible for providing and administering notice of the class action settlement to the members of the settlement class and pay for all reasonable costs incurred in providing such notice. As a result of the settlement, CIM Commercial agreed to payment of attorney's fees and expenses of plaintiffs' counsel of \$772,000. In addition, pursuant to the terms of the Settlement Agreement, the Manager purchased 100,000 shares of Common Stock owned by REIT Redux and its other "reporting persons" at a price of \$25.00 per share in August 2014.

We are not currently involved in any other material pending or threatened legal proceeding nor, to our knowledge, is any material legal proceeding currently threatened against us, other than routine litigation arising in the ordinary course of business. In the normal course of business we are periodically party to certain legal actions and proceedings involving matters that are generally incidental to our business. While the outcome of these legal actions and proceedings cannot be predicted with certainty, in management's opinion, the resolution of these legal proceedings and actions will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.



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**14. COMMITMENTS AND CONTINGENCIES (Continued)**

**SBA Related** If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced under the SBA 7(a) Program, the SBA may seek recovery of the principal loss related to the deficiency from us. With respect to the guaranteed portion of SBA loans that have been sold, the SBA will first honor its guarantee and then seek compensation from us in the event that a loss is deemed to be attributable to technical deficiencies. Based on historical experience, we do not expect that this contingency is probable to be asserted. However, if asserted, it could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**Environmental Matters** In connection with the ownership and operation of real estate properties, we may be potentially liable for costs and damages related to environmental matters, including asbestos-containing materials. We have not been notified by any governmental authority of any noncompliance, liability, or other claim in connection with any of the properties, and we are not aware of any other environmental condition with respect to any of the properties that management believes will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**Rent Expense** The ground lease for a project provides for current annual rent of \$437,000, 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 June 1, 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, we have the right of first refusal.

Rent expense under this lease, which includes straight line rent and amortization of acquired below-market ground lease, was \$438,000 for the three months ended September 30, 2014 and 2013, respectively and \$1,314,000 for the nine months ended September 30, 2014 and 2013, respectively. We record rent expense on a straight line basis. Straight line rent liability of \$10,744,000 and \$9,863,000 is included in other liabilities in the accompanying consolidated balance sheets as of September 30, 2014 and December 31, 2013, respectively.

We lease office space in Dallas, Texas under a lease which expires in May 2018. For the three and nine months ended September 30, 2014, rent expense under the lease was \$55,000 and \$120,000, respectively. Straight line rent liability of \$30,000 is included in other liabilities in the accompanying consolidated balance sheet as of September 30, 2014.

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Scheduled future noncancelable minimum lease payments at September 30, 2014 are as follows:

Years Ending December 31,	(in thousands)
2014 (Three months ending December 31, 2014)	\$ 164
2015	616
2016	743
2017	749
2018	607
Thereafter	129,031
	\$ 131,910

**15. FUTURE MINIMUM LEASE RENTALS**

Future minimum rental revenues under long-term operating leases at September 30, 2014, excluding tenant reimbursements of certain costs, are summarized as follows:

Years Ending December 31,	Governmental Tenants	Other Tenants	Total
	(in thousands)		
2014 (Three months ending December 31, 2014)	\$ 14,784	\$ 22,890	\$ 37,674
2015	47,244	91,643	138,887
2016	42,739	85,682	128,421
2017	37,173	78,715	115,888
2018	35,594	55,864	91,458
Thereafter	147,312	226,796	374,108
	\$ 324,846	\$ 561,590	\$ 886,436

**16. CONCENTRATIONS**

**Tenant Revenue Concentrations** 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 24.4%, and 29.1% of our rental and other property income for the three months ended September 30, 2014 and 2013, respectively and 24.9%, and 28.0% for the nine months ended September 30, 2014 and 2013, respectively. At September 30, 2014, and December 31, 2013, \$6,991,000 and \$5,596,000, respectively, is due from Governmental Tenants (see Note 15).

**Geographical Concentrations of Investments in Real Estate** As of September 30, 2014, and December 31, 2013, we owned 20 and 19 office properties, respectively, five multifamily properties, and three hotel properties, located in four states and Washington, D.C.

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## 16. CONCENTRATIONS (Continued)

Our revenues concentration from properties for the periods ended September 30, 2014 and 2013, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
California	60.3%	56.8%	60.3%	57.2%
Washington, D.C.	24.9	26.4	24.5	26.0
Texas	8.0	8.5	7.8	8.2
North Carolina	4.6	6.1	5.3	6.4
New York	2.2	2.2	2.1	2.2
	100.0%	100.0%	100.0%	100.0%

Our real estate investments concentration from properties as of September 30, 2014, and December 31, 2013, are as follows:

	September 30, 2014	December 31, 2013
California	51.7%	50.5%
Washington, D.C.	31.7	32.5
Texas	7.5	7.7
North Carolina	5.5	5.6
New York	3.6	3.7
	100.0%	100.0%

**Concentration of loans receivable** Substantially all of our interest income is generated from loans collateralized by hospitality properties. At September 30, 2014, our loans receivable were 94.3% concentrated in the hospitality industry. In addition, at September 30, 2014, 11.7% of our loans were collateralized by properties in Texas and 10.5% of our loans were collateralized by properties in Virginia. No other state had a concentration of 10.0% or greater of our loans receivable at September 30, 2014.

## 17. SEGMENT DISCLOSURE

In accordance with ASC Topic 280, *Segment Reporting*, our reportable segments consist of three types of commercial real estate properties, namely, office properties, hotel properties (which included an investment in a note receivable secured by a hotel property during the three and nine months ended September 30, 2013) and multifamily properties, as well as a segment for our lending operations. Management internally evaluates the operating performance and financial results of the segments based on net operating income. We also have certain general and administrative level activities, including public company expenses, legal, accounting, tax preparation, that are not considered separate operating

segments. The reportable segments are accounted for on the same basis of accounting as described in

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**17. SEGMENT DISCLOSURE (Continued)**

the notes to the audited consolidated financial statements of CIM Urban for the year ended December 31, 2013 included in our current report on Form 8-K/A filed on May 9, 2014.

We evaluate the performance of our segments based on net operating income for our real estate segment, defined as: rental and other property income and tenant reimbursements less property and related expenses, and excludes nonproperty income and expenses, interest expense, depreciation and amortization, corporate related general and administrative expenses, and transaction costs. For the lending segment, we define net operating income as interest income net of interest expense and expense for back-office operations and general overhead expenses such as administration and

Table of Contents**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)****17. SEGMENT DISCLOSURE (Continued)**

accounting. The net operating income of our reportable segments for the three and nine months ended September 30, 2014 and 2013, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014(1)	2013
	(in thousands)			
<b>Office properties:</b>				
Revenues	\$ 44,378	\$ 43,812	\$ 132,833	\$ 131,409
<b>Property expenses:</b>				
Operating	18,644	17,360	54,230	49,854
General and administrative	413	335	805	689
Total property expenses	19,057	17,695	55,035	50,543
Segment net operating income office	25,321	26,117	77,798	80,866
<b>Hotel properties:</b>				
Revenues	13,504	8,630	42,641	29,201
<b>Property expenses:</b>				
Operating	9,867	6,419	29,636	20,072
General and administrative	61	29	134	191
Total property expenses	9,928	6,448	29,770	20,263
Segment net operating income hotel	3,576	2,182	12,871	8,938
<b>Multifamily properties:</b>				
Revenues	5,235	5,045	15,427	15,023
<b>Property expenses:</b>				
Operating	2,485	2,093	7,155	5,899

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General and administrative	553	32	632	74
Total property expenses	3,038	2,125	7,787	5,973
Segment net operating income multifamily	2,197	2,920	7,640	9,050
Lending:				
Revenues	5,078		12,875	
Lending expenses:				
Interest expense	657		1,554	
General and administrative	1,263		2,921	
Total lending expenses	1,920		4,475	
Segment net operating income lending	3,158		8,400	
Total segment net operating income	\$ 34,252	\$ 31,219	\$ 106,709	\$ 98,854

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(1) The lending segment operations are included for the period from the Acquisition Date to September 30, 2014.



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## CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)

## 17. SEGMENT DISCLOSURE (Continued)

A reconciliation of segment net operating income to net income for the three and nine months ended September 30, 2014 and 2013, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Total segment net operating income	\$ 34,252	\$ 31,219	\$ 106,709	\$ 98,854
Interest	(4,794)	(4,611)	(13,053)	(14,013)
General and administrative	(867)	(168)	(3,454)	(867)
Asset management fees and other fees to related parties	(6,476)	(5,442)	(18,551)	(16,282)
Transaction costs	(46)	(2,619)	(546)	(4,013)
Depreciation and amortization	(17,677)	(16,620)	(51,592)	(51,290)
	4,392	1,759	19,513	12,389
Bargain purchase gain			4,918	
	4,392	1,759	24,431	12,389
Income before provision for income taxes	4,392	1,759	24,431	12,389
Provision for income taxes	(112)		(420)	
	4,280	1,759	24,011	12,389
Net income	4,280	1,759	24,011	12,389
Net loss (income) attributable to noncontrolling interests	5	6	(108)	(103)
	\$ 4,285	\$ 1,765	\$ 23,903	\$ 12,286
Net income attributable to stockholders	\$ 4,285	\$ 1,765	\$ 23,903	\$ 12,286

The condensed assets for each of the segments as of September 30, 2014 and December 31, 2013, along with capital expenditures and originations for the nine months ended September 30, 2014 and 2013, are as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Condensed assets:		
Office properties	\$ 1,509,247	\$ 1,481,757
Hotel properties	176,225	174,263
Multifamily properties	170,291	173,985
Lending	210,759	
Non-segment assets	12,963	4,472

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Total assets	\$	2,079,485	\$	1,834,477
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**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**AS OF SEPTEMBER 30, 2014, AND DECEMBER 31, 2013, AND  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED)**

**17. SEGMENT DISCLOSURE (Continued)**

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Capital expenditures(1):		
Office properties	\$ 15,658	\$ 12,680
Hotel properties	1,068	1,626
Multifamily properties	546	1,250
Total capital expenditures	17,272	15,556
Originations	36,557	
Total capital expenditures and originations	\$ 53,829	\$ 15,556

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(1) Represents additions and improvements to real estate investments, excluding acquisitions.

**18. SUBSEQUENT EVENTS**

In October 2014, we acquired a 100% fee-simple interest in a three-building creative office portfolio totaling approximately 32,000 square feet and 101 parking stalls in Culver City, California, for approximately \$18,500,000.

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**ITEM 2.**  
**Management's Discussion and Analysis of Financial Condition  
and Results of Operations**

*This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. Such forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "believe," "anticipate," "seek," "plan," "estimate," or "continue," or the negative thereof or other variations or similar words or phrases. These statements include the plans and objectives of management for future operations, including, but not limited to, plans and objectives relating to future growth and availability of funds. The forward-looking statements included herein are based on current expectations and there can be no assurance that these expectations will be attained. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made. We do not undertake to update them to reflect changes that occur after the date they are made.*

**The following discussion of our financial condition at September 30, 2014 and results of operations for the three and nine months ended September 30, 2014 and 2013 should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013 and the audited consolidated financial statements of CIM Urban for the year ended December 31, 2013, included in our current report on Form 8-K/A filed on May 9, 2014. For a more detailed description of the risks affecting our financial condition and results of operations, see "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013.**

**All references to Common Stock and related per share data have been adjusted in this Form 10-Q to reflect the reverse stock split.**

**EXECUTIVE SUMMARY**

**The Merger**

On July 8, 2013, our predecessor, PMC Commercial, entered into the Merger Agreement with CIM Urban REIT and subsidiaries of the respective parties. The Merger Agreement provided for the business combination of CIM Urban REIT's wholly owned subsidiary, CIM Urban and PMC Commercial. Pursuant to the Merger Agreement, an affiliate of CIM Urban REIT received approximately 4.4 million shares of newly-issued PMC Commercial Common Stock and approximately 65.0 million shares of newly-issued PMC Commercial preferred stock. Following the Merger and subsequent increase in our authorized number of shares, each share of preferred stock was converted into 1.4 shares of PMC Commercial Common Stock, resulting in the issuance of approximately 95.4 million shares of Common Stock in the aggregate in connection with the Merger, representing approximately 97.8% of PMC Commercial's outstanding shares of Common Stock. All shares of PMC Commercial Common Stock that were outstanding immediately prior to the Merger continue to remain outstanding following the Merger. In addition, stockholders of record of PMC Commercial at the close of the business day prior to the Acquisition Date received a special cash dividend of \$27.50 per share of Common Stock plus that pro-rata portion of PMC Commercial's regular quarterly cash dividend

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accrued through the Acquisition Date, each of which was paid March 25, 2014. The Merger was completed on March 11, 2014. Upon completion of the Merger, PMC Commercial became the parent of CIM Urban, previously the operating subsidiary of CIM Urban REIT. PMC Commercial reincorporated from Texas to Maryland on April 28, 2014 and, on the same day, changed its name from "PMC Commercial Trust" to "CIM Commercial Trust Corporation".

The Merger was accounted for as a reverse acquisition under the acquisition method of accounting with CIM Urban considered to be the accounting acquirer based upon the terms of the Merger Agreement. Accordingly, the acquired assets and liabilities of PMC Commercial acquired on March 11, 2014 and still owned or held by us are included in the consolidated balance sheet as of September 30, 2014 and the results of its operations and cash flows are included in the consolidated statements of operations and comprehensive income and cash flows for the period from the Acquisition Date through September 30, 2014.

**Business Overview**

Our principal business is to acquire, own, and operate Class A and creative office properties in vibrant and improving urban communities throughout the U.S. These communities are located in areas that include traditional downtown areas and suburban main streets, which have high barriers to entry, high population density, improving demographic trends and a propensity for growth. We believe that the critical mass of redevelopment in such areas creates positive externalities, which enhance the value of substantially stabilized assets in the area. We believe that these assets will provide greater returns than similar assets in other markets, as a result of the improving demographics, public commitment, and significant private investment that characterize these areas.

Our real estate business is managed by an affiliate of CIM Group, Inc. ("CIM"). CIM is an integrated, full-service real estate and infrastructure fund manager with multi-disciplinary expertise and in-house research, acquisition, investment, development, finance, leasing, and management capabilities. CIM is headquartered in Los Angeles and has offices in Oakland, California; Bethesda, Maryland; and New York, New York.

We seek attractive risk-adjusted returns by exploiting the power of the CIM platform. Over time, we seek to expand our real estate holdings in communities targeted by CIM for investment, supported by CIM's broad real estate investment capabilities, as part of our plan to prudently grow market value and earnings.

**Properties**

As of September 30, 2014, CIM Urban's investments consisted of (i) 20 office properties comprising approximately 5.5 million rentable square feet, (ii) five multifamily properties comprising 930 units, (iii) three hotels comprising 1,070 rooms, (iv) three parking garages, two of which have street level retail space, and (v) one development site.

**Strategy**

CIM's community qualification process serves as the foundation for our investment strategy. CIM targets high barrier-to-entry markets and submarkets with high population density and applies rigorous research to qualify for potential investments. Since 1994, CIM has qualified 95 communities in high barrier-to-entry markets and has deployed capital in 47 of these communities. The qualification process generally takes between six months and five years and is a critical component of CIM's investment evaluation. CIM examines the characteristics of a community to determine whether the community justifies the extensive efforts CIM undertakes in reviewing and making potential investments in these qualified communities. Qualified communities generally fall into one of two categories: (1) transitional

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urban districts and (2) well-established, thriving urban areas (typically major central business districts ("CBDs")).

As a result of the in-depth research and analysis that CIM has performed to qualify transitional urban communities over the years, CIM has also gained extensive knowledge of adjoining major CBDs, in both primary and secondary cities. While these areas are generally not underserved and in transition (but rather are well-established, thriving areas), due to the recent financial crisis and related distressed situations, CIM has been able to capitalize on pricing in these districts that has fallen below the values that CIM believes it will be able to obtain in the long term. CIM expects that, by applying its relative value investment discipline and local market knowledge, it will be able to provide us with opportunities to invest in high quality assets located in these major markets at what CIM believes to be discounts to intrinsic (i.e., expected long-term) value.

**Lending Segment**

We will continue to deploy a portion of our capital to our real estate lending platform through our wholly owned subsidiary (d/b/a PMC Commercial Trust) that originates and services loans under the U.S. Small Business Administration 7(a) Guaranteed Loan Program as well as through other lending programs which allow us to achieve attractive risk adjusted returns on its loans.

We are also exploring strategic alternatives for our lending business that may result in the deconsolidation of the lending business, allowing us to increase our focus as an urban office REIT while independently expanding, diversifying and growing the lending business.

**Funds from Operations ("FFO")**

We believe that FFO is a widely recognized and appropriate measure of the performance of a REIT and that it 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 U.S. 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 noncontrolling interests. We calculate 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 our performance because it excludes depreciation and amortization and captures neither the changes in the value of our real estate properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our operating results. Other REITs may not calculate FFO in accordance with NAREIT, accordingly, our FFO may not be comparable to those other REITs' FFO. Therefore, FFO should be considered only as a supplement to net income as a measure of our performance and should not be used as a supplement to or substitute measure for cash flow from operating activities computed in accordance with U.S. GAAP. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends.

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The following table sets forth a reconciliation of net income to FFO:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income attributable to stockholders	\$ 4,285	\$ 1,765	\$ 23,903	\$ 12,286
Depreciation and amortization	17,677	16,620	51,592	51,290
Net (loss) income attributable to noncontrolling interests	(5)	(6)	108	103
<b>FFO</b>	<b>\$ 21,957</b>	<b>\$ 18,379</b>	<b>\$ 75,603</b>	<b>\$ 63,679</b>

FFO increased to \$21,957,000, or by 19.5%, for the three months ended September 30, 2014, compared to \$18,379,000 for the three months ended September 30, 2013. The increase was primarily attributable to \$3,158,000 from the operations of the lending business, a decrease in transaction costs of \$2,573,000, which mainly represented costs related to the Merger and costs associated with the hotel that CIM Urban took possession of in October 2013, offset by an increase of \$699,000 in corporate general and administrative expenses, an increase of \$1,034,000 in asset management fees and other fees to related parties and an increase of \$183,000 in corporate interest expense.

FFO increased to \$75,603,000, or by 18.7%, for the nine months ended September 30, 2014, compared to \$63,679,000 for the nine months ended September 30, 2013. The increase was primarily attributable to a non-cash bargain purchase gain of \$4,918,000, an increase of \$8,400,000 from the operations of the lending business for the period from the Acquisition Date to September 30, 2014, a decrease in transaction costs of \$3,467,000, which mainly represented costs related to the Merger and costs associated with the hotel that CIM Urban took possession of in October 2013, a decrease of \$960,000 in interest expense, offset by an increase of \$2,587,000 in corporate general and administrative expenses, an increase of \$2,269,000 in asset management fees and other fees to related parties and an increase of \$420,000 in provision for income taxes.

### **Rental Rate Trends**

**Office Rental Rates:** The following table sets forth the annualized rent per occupied square foot across our office portfolio as of the specified periods:

	As of September 30,	
	2014	2013
Annualized rent per occupied square foot(1)	\$ 36.08	\$ 35.88

- (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 September 30, 2014 and 2013 were approximately \$11,262,000 and \$12,610,000, respectively. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent. Annualized rent for certain office properties includes rent attributable to retail and parking.

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Over the next four quarters, we expect to see expiring cash rents as set forth in the table below:

	For the Three Months Ended			
	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015
<b>Expiring Cash Rents:</b>				
Expiring square feet(1)	273,966	128,241	131,706	85,423
Expiring rent per square foot(2)	\$ 43.22	\$ 38.70	\$ 34.72	\$ 41.98

- (1) All month-to-month tenants are included in the expiring leases in the first quarter listed.
- (2) Represents gross monthly base rent, as of September 30, 2014, under leases expiring during the periods above, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

**Multifamily Rates:** The following table sets forth the monthly rent per occupied unit across our multifamily portfolio for the specified periods:

	As of September 30,	
	2014	2013
	Monthly rent per occupied unit(1)	\$ 1,900

- (1) Represents gross monthly base rent under leases as of the specified period, divided by occupied units. This amount reflects total cash rent before concessions.

**Occupancy Rates:** The following table sets forth the occupancy rates across our office and multifamily real estate portfolios as of the specified periods:

	As of September 30,	
	2014	2013
Office portfolio	83.3%	86.3%
Multifamily portfolio	95.1%	94.9%

**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:

	For the Nine Months Ended September 30,	
	2014	2013
<b>Rental Rate Trends Hotel Statistics(1)</b>		
Occupancy	83.4%	77.7%
ADR	\$ 122.23	\$ 130.40
RevPAR	\$ 101.97	\$ 101.31

- (1) The nine months ended September 30, 2013 statistics exclude LAX Holiday Inn which CIM Urban took possession of through foreclosure in October 2013. Excluding LAX Holiday Inn from the hotel statistics for the nine months ended September 30, 2014, the occupancy, ADR, and RevPAR would have been 78.3%, \$142.77, and \$111.76, respectively.





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Our lending division sells loans pursuant to the SBA 7(a) Program. The SBA guaranteed portion of these loans are sold in legal sale transactions to either dealers in government guaranteed loans or institutional investors as the loans are fully funded. These government guaranteed portions of loans may be sold for (1) a cash premium and the minimum 1% SBA required servicing spread, (2) significant future servicing spread and no cash premium or (3) future servicing spread and a cash premium of 10% ("hybrid loan sales"). We are required to permanently treat certain of the proceeds received from these legally sold portions of loans (those loans sold solely for future servicing spread and those loans sold for a cash premium of 10% and future servicing spread) as secured borrowings (debt) for the life of the loan and 100% of the loan is included in our loans receivable.

**RESULTS OF OPERATIONS****Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013***Overview*

	Three Months Ended September 30,		Change	
	2014	2013	\$	%
	(dollars in thousands)			
Total revenues	\$ 68,195	\$ 57,487	\$ 10,708	18.6%
Total expenses	\$ 63,803	\$ 55,728	\$ 8,075	14.5%
Net income	\$ 4,280	\$ 1,759	\$ 2,521	143.3%

Net income increased during the three months ended September 30, 2014 primarily due to the operations of the lending segment of \$3,158,000, a decrease in transaction costs of \$2,573,000, which mainly represented costs related to the Merger and costs associated with the hotel that CIM Urban took possession of in October 2013, offset by an increase of \$699,000 in corporate general and administrative expenses, an increase of \$1,034,000 in asset management fees and other fees to related parties, an increase of \$1,057,000 in depreciation and amortization and an increase of \$183,000 in corporate interest expense.

CIM Commercial operates in four segments: office properties, hotel, multifamily and lending. Set forth and described below are summary segment results for our four segments for the specified periods.

**Summary Segment Results**

	Three Months Ended September 30,		Change	
	2014	2013	\$	%
	(dollars in thousands)			
<b>Revenues:</b>				
Office properties	\$ 44,378	\$ 43,812	\$ 566	1.3%
Hotel	13,504	8,630	4,874	56.5%
Multifamily	5,235	5,045	190	3.8%
Lending	5,078		5,078	
<b>Expenses:</b>				
Office properties	19,057	17,695	1,362	7.7%
Hotel	9,928	6,448	3,480	54.0%
Multifamily	3,038	2,125	913	43.0%
Lending	1,920		1,920	

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**Revenues**

**Office Properties Revenue:** Revenues include rental revenues from office properties, expense reimbursements and lease termination income. Total office property revenues increased to \$44,378,000, or 1.3%, for the third quarter of 2014 compared to \$43,812,000 for the third quarter of 2013, primarily due to revenues related to the office property acquired in April 2014, offset by a decrease at the North Carolina office property due to early termination of a large tenant in April 2014.

**Hotel Revenue:** Total hotel revenue increased to \$13,504,000, or 56.5%, for the third quarter of 2014 compared to \$8,630,000 for the third quarter of 2013. The increase is primarily due to the operations of the LAX Holiday Inn, which CIM Urban acquired through foreclosure in October 2013, being reflected as an operating hotel in the 2014 third quarter, versus a mortgage note receivable in the 2013 third quarter. Additionally, our hotel properties in Sacramento and Oakland, California, experienced RevPAR growth in the 2014 third quarter compared to the 2013 third quarter due to increased rates and occupancy.

**Multifamily Revenue:** Total multifamily revenue increased to \$5,235,000, or 3.8%, for the third quarter of 2014 compared to \$5,045,000 for the third quarter of 2013. The increase is primarily due to increased rates.

**Lending Revenue:** Represents revenues from the lending operations of CIM Commercial and our lending subsidiaries including interest income on loans and other loan related fee income. Included in the three months ended September 30, 2014 is interest income of \$4,456,000, including accretion of \$1,499,000 related to acquisition discounts, and \$327,000 of premium income related to the sale of the government guaranteed portions of our fully funded SBA 7(a) loans.

**Expenses**

**Office Properties Expenses:** Total expenses increased to \$19,057,000, or 7.7%, for the third quarter of 2014 compared to \$17,695,000 for the third quarter of 2013. The increase is primarily due to expenses related to the office property acquired in April 2014, and an increase in real estate taxes at the California properties. We expect there will be increases in real estate taxes compared to 2013 at the California properties for the remainder of the year.

**Hotel Expenses:** Total hotel expenses increased to \$9,928,000, or 54.0%, for the third quarter of 2014 compared to \$6,448,000 for the third quarter of 2013. The increase is primarily due to the LAX Holiday Inn, which CIM Urban acquired through foreclosure in October 2013, being reflected as an operating hotel in the 2014 third quarter, versus a mortgage note receivable in the 2013 third quarter.

**Multifamily Expenses:** Total multifamily expenses increased to \$3,038,000, or 43.0%, for the third quarter of 2014 compared to \$2,125,000 for the third quarter of 2013. The increase is primarily due to an increase in real estate taxes and legal costs in the 2014 third quarter compared to the 2013 third quarter. We expect there will be increases in legal costs compared to 2013 for the remainder of the year.

**Lending Expenses:** Represents expenses from the lending operation of CIM Commercial and our lending subsidiaries including general and administrative expenses related to the operation of the lending business. Lending expenses primarily represent salaries and related benefits expense of \$1,036,000 and interest expense of \$657,000.

**Interest Expense:** Interest expense that has not been allocated to segments of \$4,794,000 for the third quarter of 2014 represents a \$183,000 increase from \$4,611,000 for the third quarter of 2013. Increased interest expense from incremental credit facility borrowings in the 2014 third quarter and from amortization of deferred loan costs related to the credit facilities terminated and repaid in full in

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September 2014 was partially offset by lower interest expense from amortizing fixed-rate mortgages as a result of the repayment of approximately \$75,909,000 in fixed rate mortgages in September 2013. Borrowings under our lines of credit outstanding during the third quarter of 2014 were at lower interest rates compared to the interest rates on the fixed rate mortgages that were outstanding during the third quarter of 2013 that were repaid in September 2013.

**General and Administrative:** General and administrative expenses that have not been allocated to segments increased to \$867,000 for the third quarter of 2014 compared to \$168,000 for the comparable 2013 period. The increase is primarily due to public company expenses, offset by a one-time gain of \$1,166,000 relating to the settlement of a contractual obligation that reduced expenses in the third quarter of 2014. We expect that there will be an increase in general and administrative expenses related to exploring strategic alternatives, and other public company expenses for the remainder of the year.

**Transaction Costs:** Transaction costs totaling \$46,000 for the third quarter of 2014 represent a \$2,573,000 decrease from \$2,619,000 for the third quarter of 2013. The costs incurred in the third quarter of 2013 are associated with the Merger, including due diligence costs, reimbursement of PMC Commercial's acquisition-related costs, legal and accounting expenses, as well as costs related to the foreclosure of a hotel secured by a mortgage note receivable, which was finalized in October 2013.

**Asset Management Fees and Other Fees to Related Parties:** Asset management fees totaled \$5,821,000 for the third quarter of 2014 compared to \$5,442,000 for the third quarter of 2013. 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, 2013 appraised values, as well as incremental capital expenditures and acquisitions in the first nine months of 2014. In addition, pursuant to the Master Services Agreement entered into on the Acquisition Date, CIM Commercial will pay a Base Service Fee equal to \$1,000,000 per year (subject to annual escalation by a specified inflation factor beginning on January 1, 2015) to the Manager, a related party. Fees to the related party totaled \$250,000 for the third quarter of 2014 compared to \$0 for the third quarter of 2013. In addition, pursuant to the terms of the Master Services Agreement, the Manager may receive compensation for performing certain services for CIM Commercial and its subsidiaries that are not covered under the Base Service Fee. For the third quarter of 2014, we expensed \$405,000 for such services.

**Depreciation and Amortization:** Depreciation and amortization expense increased to \$17,677,000, or 6.4%, for the third quarter of 2014, compared to \$16,620,000 for the third quarter of 2013. The increase in depreciation and amortization expense compared to the third quarter of 2013 is primarily due to depreciation expense associated with additional capital expenditures, depreciation from LAX Holiday Inn, which CIM Urban acquired through foreclosure in October 2013, and the acquisition of the office property in April 2014.

### **Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013**

#### *Overview*

	Nine Months Ended September 30,		Change	
	2014	2013	\$	%
	(dollars in thousands)			
Total revenues	\$ 203,776	\$ 175,633	\$ 28,143	16.0%
Total expenses	\$ 184,263	\$ 163,244	\$ 21,019	12.9%
Bargain purchase gain	\$ 4,918	\$ -	\$ 4,918	
Net income	\$ 24,011	\$ 12,389	\$ 11,622	93.8%

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Net income increased during the nine months ended September 30, 2014 primarily due to the recognition of the bargain purchase gain of \$4,918,000, an increase of \$8,400,000 from the operations of the lending business for the period from the Acquisition Date to September 30, 2014, a decrease of \$3,467,000 in transaction costs, which mainly represented costs related to the Merger and costs associated with the hotel that CIM Urban took possession of in October 2013, a decrease of \$960,000 in corporate interest expense, offset by an increase of \$2,587,000 in corporate general and administrative expenses, an increase of \$2,269,000 in asset management fees and other fees to related parties and an increase of \$420,000 in provision for income taxes. The bargain purchase gain was recorded as of the Acquisition Date in the amount equal to the excess of the fair value of the identifiable net assets acquired over the purchase price (consideration).

Set forth and described below are summary segment results for our four segments for the specified periods.

### Summary Segment Results

	Nine Months Ended September 30,		Change	
	2014	2013	\$	%
(dollars in thousands)				
<b>Revenues:</b>				
Office properties	\$ 132,833	\$ 131,409	\$ 1,424	1.1%
Hotel	42,641	29,201	13,440	46.0%
Multifamily	15,427	15,023	404	2.7%
Lending(1)	12,875		12,875	
<b>Expenses:</b>				
Office properties	55,035	50,543	4,492	8.9%
Hotel	29,770	20,263	9,507	46.9%
Multifamily	7,787	5,973	1,814	30.4%
Lending(1)	4,475		4,475	

(1)

Our lending operations are reflected beginning on the Acquisition Date to September 30, 2014.

### **Revenues**

**Office Properties Revenue:** Revenues include rental revenues from office properties, expense reimbursements and lease termination income. Total office property revenues increased to \$132,833,000, or 1.1%, for the first nine months of 2014 compared to \$131,409,000 for the first nine months of 2013, primarily due to revenues related to the office property acquired in April 2014, offset by a decrease at the North Carolina office property due to early termination of a large tenant in April 2014.

**Hotel Revenue:** Total hotel revenue increased to \$42,641,000, or 46.0%, for the first nine months of 2014 compared to \$29,201,000 for the first nine months of 2013. The increase is primarily due to the operations of the LAX Holiday Inn, which CIM Urban acquired through foreclosure in October 2013, being reflected as an operating hotel in the nine months ended September 30, 2014, versus a mortgage note receivable in the nine months ended September 30, 2013. Additionally, our hotel properties in Sacramento and Oakland, California, experienced RevPAR growth in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 due to increased rates and occupancy.

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**Multifamily Revenue:** Total multifamily revenue increased to \$15,427,000, or 2.7%, for the first nine months of 2014 compared to \$15,023,000 for the first nine months of 2013. The increase is primarily due to increased rates.

**Lending Revenue:** Represents revenues from the lending operations of CIM Commercial and our lending subsidiaries including interest income on loans and other loan related fee income. The lending segment revenue is only reflected beginning on the Acquisition Date through September 30, 2014. Included in the nine months ended September 30, 2014 is interest income of \$10,726,000, including accretion of \$3,634,000 related to acquisition discounts, and \$1,478,000 of premium income related to the sale of the government guaranteed portions of our fully funded SBA 7(a) loans.

### *Expenses*

**Office Properties Expenses:** Total expenses increased to \$55,035,000, or 8.9%, for the first nine months of 2014 compared to \$50,543,000 for the first nine months of 2013. The increase is primarily due to an increase in electricity expense at the District of Columbia properties, and an increase in real estate taxes at the California properties. We expect there will be increases in real estate taxes compared to 2013 at the California properties for the remainder of the year.

**Hotel Expenses:** Total hotel expenses increased to \$29,770,000, or 46.9%, for the first nine months of 2014 compared to \$20,263,000 for the first nine months of 2013. The increase is primarily due to the LAX Holiday Inn, which CIM Urban acquired through foreclosure in October 2013, being reflected as an operating hotel in the nine months ended September 30, 2014, versus a mortgage note receivable in the nine months ended September 30, 2013. Additionally, our hotel properties in Sacramento and Oakland, California had increased variable costs associated with higher occupancy for the first nine months of 2014 compared to the first nine months of 2013.

**Multifamily Expenses:** Total multifamily expenses increased to \$7,787,000, or 30.4%, for the first nine months of 2014 compared to \$5,973,000 for the first nine months of 2013. The increase is primarily due to an increase in real estate taxes and legal costs in the first nine months of 2014 compared to the first nine months of 2013. We expect there will be increases in legal costs compared to 2013 for the remainder of the year.

**Lending Expenses:** Represents expenses from the lending operation of CIM Commercial and our lending subsidiaries including general and administrative expenses related to the operation of the lending business. The lending segment expenses are only reflected beginning on the Acquisition Date through September 30, 2014. Lending expenses primarily represent salaries and related benefits expense of \$2,360,000 and interest expense of \$1,554,000.

**Interest Expense:** Interest expense that has not been allocated to segments of \$13,053,000 for the first nine months of 2014 represents a \$960,000 decrease from \$14,013,000 for the first nine months of 2013. Increased interest expense from incremental lines of credit borrowings and from amortization of deferred loan costs related to the credit facilities terminated and repaid in full in September 2014 was offset by lower interest expense from amortizing fixed-rate mortgages as a result of the repayment of approximately \$75,909,000 in fixed rate mortgages in September 2013. The reduction in interest expense was primarily due to the lower interest rate on our borrowings under our lines of credit outstanding during the first nine months of 2014 versus the interest rates on the fixed rate mortgages that were outstanding during the first nine months of 2013 that were repaid in September 2013.

**General and Administrative:** General and administrative expenses that have not been allocated to segments increased to \$3,454,000 for the first nine months of 2014 compared to \$867,000 for the comparable 2013 period. The increase is primarily due to public company expenses incurred beginning on the Acquisition Date, offset by a one-time gain of \$1,166,000 relating to the settlement of a contractual obligation that reduced expenses in the first nine months of 2014. We expect that there will be an increase in general and administrative expenses related to exploring strategic alternatives and other public company expenses for the remainder of the year.

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**Transaction Costs:** Transaction costs totaling \$546,000 for the first nine months of 2014 represent a \$3,467,000 decrease from \$4,013,000 for the first nine months of 2013. These costs are mainly associated with the Merger and are primarily comprised of due diligence costs, reimbursement of PMC Commercial's acquisition-related costs, legal and accounting expenses. The transaction costs for the first nine months of 2013 include \$1,393,000 related to the foreclosure of a hotel secured by a mortgage note receivable, which was finalized in October 2013.

**Asset Management Fees and Other Fees to Related Parties:** Asset management fees totaled \$17,300,000 for the first nine months of 2014 compared to \$16,282,000 for the first nine months of 2013. 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, 2013 appraised values, as well as incremental capital expenditures and acquisitions in the first nine months of 2014. In addition, pursuant to the Master Services Agreement entered into on the Acquisition Date, CIM Commercial will pay a Base Service Fee equal to \$1,000,000 per year (subject to annual escalation by a specified inflation factor beginning on January 1, 2015) to the Manager, a related party. Fees to the related party totaled \$556,000 for the first nine months of 2014 compared to \$0 for the first nine months of 2013. In addition, pursuant to the terms of the Master Services Agreement, the Manager may receive compensation for performing certain services for CIM Commercial and its subsidiaries that are not covered under the Base Service Fee. For the first nine months of 2014, fees for such services were \$695,000.

**Depreciation and Amortization:** Depreciation and amortization expense increased to \$51,592,000, or 0.6%, for the first nine months of 2014, compared to \$51,290,000 for the first nine months of 2013. The increase in depreciation and amortization expense compared to the first nine months of 2013 is primarily due to depreciation expense associated with additional capital expenditures, depreciation from LAX Holiday Inn, which CIM Urban acquired through foreclosure in October 2013, and the acquisition of the office property in April 2014, partially offset by certain assets that became fully depreciated.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources and Uses of Funds

#### Credit Facilities

In September 2014, CIM Commercial entered into an \$850,000,000 unsecured credit facility with a bank syndicate consisting of a \$450,000,000 revolver, a \$325,000,000 term loan and a \$75,000,000 delayed-draw term loan. The credit facility can be upsized to \$1,150,000,000, under certain conditions. CIM Commercial is subject to certain financial maintenance covenants and a minimum property ownership condition. Outstanding advances under the revolver bear interest at the base rate, plus 0.20% to 1.00% or LIBOR plus 1.20% to 2.00%, depending on the maximum consolidated leverage ratio. Outstanding advances under the term loans bear interest at the base rate, plus 0.15% to 0.95% or LIBOR plus 1.15% to 1.95%, depending on the maximum consolidated leverage ratio. Upon CIM Commercial obtaining an investment grade credit rating for its long term, senior, unsecured non-credit enhanced debt, the applicable margin over the base rate or LIBOR will be based on CIM Commercial's credit rating. The revolver is also subject to an unused commitment fee of 0.15% or 0.25% depending on the amount of aggregate unused commitments. The delayed draw term loan is also subject to an unused line fee of 0.25%. The credit facility matures in September 2016 and provides for two one-year extension options under certain conditions. As of October 31, 2014 and September 30, 2014, \$350,000,000, and \$330,000,000, respectively, was outstanding under the credit facility and \$500,000,000, and \$520,000,000, respectively, was available for future borrowings. Proceeds from the unsecured credit facility were used for general corporate purposes and to repay \$323,000,000 outstanding under our unsecured credit facilities.

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In February 2012, CIM Urban entered into an unsecured revolving line of credit with a bank syndicate, which allowed for maximum borrowings of \$100,000,000. Borrowings under the line of credit were limited by certain borrowing base calculations. Outstanding advances under the line of credit bore 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, until August 2013. In August 2013, the unsecured revolving line was amended, and outstanding advances under the line bore 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 line of credit was also subject to an unused commitment fee of 0.25% or 0.35% depending on the amount of aggregate unused commitments. As of December 31, 2013, \$100,000,000 was outstanding under the line of credit and \$0 was available for future borrowings. This line of credit was terminated and repaid in full in September 2014.

In August 2013, CIM Urban entered into another unsecured revolving credit facility with a syndicate of banks. The credit facility provided an additional \$125,000,000 of borrowing capacity that was increased to \$150,000,000. CIM Urban amended the facility in April 2014 to further increase the maximum aggregate borrowing capacity under the revolving credit facility to \$200,000,000. Borrowings under the revolving credit facility were limited by certain borrowing base calculations. Outstanding advances under the revolving credit facility bore 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 revolving credit facility was also subject to an unused commitment fee of 0.25% or 0.35% depending on the amount of aggregate unused commitments. As of December 31, 2013, \$64,000,000 was outstanding under the revolving credit facility and \$61,000,000 was available for future borrowings. This line of credit was terminated and repaid in full in September 2014.

At September 30, 2014 and December 31, 2013, CIM Commercial and CIM Urban, respectively, were in compliance with all of their respective financial covenants.

Our intention is to use the \$75,000,000 delayed-draw term loan portion of the unsecured credit facility to pay off mortgages of \$73,632,000 that are maturing during the year ending December 31, 2015.

Our primary liquidity needs for the next twelve months (1) include (i) funds to pay for capital expenditures, (ii) funds to originate new loans, (iii) funds to pay debts and other obligations as they become due and (iv) funds to pay dividends and (2) may include funds for acquisitions, development or repositioning of properties. We expect our primary sources of liquidity to be cash on hand, cash provided by operations, borrowings under our existing credit facility, principal collections on loans receivable and debt and/or equity issuances.

Our long-term liquidity needs will consist primarily of funds necessary to acquire properties and to pay for development or repositioning of properties, non-recurring capital expenditures, loan originations and refinancing of indebtedness. We 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 our business, and the requirements imposed by REIT rules that we distribute a substantial majority of our REIT taxable income on an annual basis in the form of dividends, may cause us to have substantial liquidity needs over the long-term. We will seek to satisfy our long-term liquidity needs through cash flows from operations, long-term borrowings, debt and/or equity issuances and/or, to the extent appropriate, property dispositions. These sources of funding may not be available on attractive terms or at all. If we cannot obtain additional funding for our long-term liquidity needs, our investments may generate lower cash flows or decline in value, or both, which may cause us to reduce our dividend or sell assets at a time when we would not otherwise do so.



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**Available Borrowings, Cash Balances and Capital Resources**

We have typically financed our capital needs through investor equity commitments, long-term secured mortgages and short-term lines of credit. As of September 30, 2014 and December 31, 2013, we had total indebtedness of \$624,247,000 and \$395,105,000, respectively. Included in total indebtedness is \$330,000,000 and \$164,000,000 of borrowings under credit facilities with total capacity of \$850,000,000 and \$225,000,000 at September 30, 2014 and December 31, 2013, respectively.

**Cash Flow Analysis**

As a REIT, our cash flows from operations are typically used to fund our dividends.

Our cash and cash equivalents totaled \$30,609,000 and \$16,796,000 at September 30, 2014 and December 31, 2013, respectively. Our cash flows from operating activities are primarily dependent upon the occupancy level of our real estate assets, the rental rates achieved through our leases, and the collectability of rent and recoveries from our tenants. Our 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 totaled \$52,363,000 for the first nine months of 2014 compared to \$49,617,000 for the first nine months of 2013. The increase is mainly due to additional net income from the acquisition of an office property in April 2014, and due to the operations of the LAX Holiday Inn, which CIM Urban acquired through foreclosure in October 2013, being reflected as an operating hotel in the first nine months of 2014, versus a mortgage note receivable in the first nine months of 2013. In addition, our cash flows from operating activities include cash used in operating activities from the lending division of \$25,288,000 for loans funded that were held for sale, net of \$16,700,000 proceeds from the sale of guaranteed loans. Our loans funded held for sale will fluctuate based on management's decision to sell loans for solely cash premiums, as a hybrid loan sale or for solely servicing spread.

Our cash flows from investing activities are primarily related to property acquisitions and sales, expenditures for development and redevelopment projects, capital expenditures and the cash flows from lending activities. Net cash used in investing activities was \$39,432,000 in the first nine months of 2014 compared to \$13,781,000 in the first nine months of 2013 primarily due to an increase in the use of funds for the acquisition of the office property acquired in April 2014, an increase in loans funded, and an increase in capital expenditures, offset by principal collected on loans, and by cash and cash equivalents acquired in the Merger of \$3,185,000.

Our cash flows from financing activities are generally impacted by borrowings and capital activities, net of dividends and distributions. Net cash provided by (used in) financing activities increased to \$882,000 in the first nine months of 2014 from (\$50,045,000) in the first nine months of 2013. We used funds from financing activities during the nine months ended September 30, 2014 primarily to pay distributions of \$122,988,000 in the aggregate (\$63,702,000 to partners and stockholders and \$59,286,000 for the acquisition of PMC Commercial) compared to partner distributions of \$83,035,000 during the first nine months of 2013. We had net borrowings of \$129,546,000 during the first nine months of 2014 compared to \$33,361,000 during the first nine months of 2013. Additionally, deferred loan costs of \$5,736,000 were paid in the first nine months of 2014 related to the \$850,000,000 credit facility, compared to \$253,000 in the first nine months of 2013.

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**SUMMARIZED CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES**

The following summarizes our contractual obligations at September 30, 2014:

Contractual Obligations	Total	Payments Due by Period			Thereafter
		2014	2015 - 2016	2017 - 2018	
(in thousands)					
<i>Debt:</i>					
Mortgages Payable	\$ 223,508	\$ 1,661	\$ 81,409	\$ 28,942	\$ 111,496
Other Principal(1)	357,070		330,000		27,070
Secured Borrowings(2)	40,359	309	2,574	2,757	34,719
<i>Interest:</i>					
Debt(3)	109,448	5,189	33,424	18,371	52,464
<i>Other Contractual Obligations:</i>					
Borrower advances	4,964	4,964			
Executive employment agreements(4)	1,048	210	838		
Operating leases(5)	131,910	164	1,359	1,356	129,031
<b>Total contractual cash obligations</b>	<b>\$ 868,307</b>	<b>\$ 12,497</b>	<b>\$ 449,604</b>	<b>\$ 51,426</b>	<b>\$ 354,780</b>

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- (1) Represents the junior subordinated notes and unsecured credit facility.
- (2) Principal payments are generally dependent upon cash flows received from the underlying loans. Our estimate of their repayment is based on scheduled principal payments on the underlying loans. Our estimate will differ from actual amounts to the extent we experience prepayments and/or loan liquidations or charge-offs. No payment is due unless payments are received from the borrowers on the underlying loans.
- (3) Excludes premiums and discounts. For the mortgages payable, the interest expense is calculated based on the current effective interest rate on the related debt. For our unsecured credit facility, we use the current balance outstanding through maturity date, and is calculated using the variable rates in effect at September 30, 2014.
- (4) Represents minimum payments required under executive employment agreements.
- (5) Represents future minimum lease payments under our operating leases for office space and under the ground lease for one of the projects.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Our accounting policies are described in Note 3 to the consolidated financial statements included in this Form 10-Q.

**DIVIDENDS**

Our stockholders are entitled to receive dividends when and as declared by the Board of Directors. In determining our dividend policy, the Board of Directors considers many factors including, but not limited to, expectations for future earnings, REIT taxable income (loss) and maintenance of REIT status, the economic environment and portfolio performance. Consequently, the dividend rate on a quarterly basis does not

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necessarily correlate directly to any individual factor. There can be no assurance that the future dividends declared by our Board of Directors will not differ materially from historical dividend levels.

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CIM Urban paid a distribution of \$16,100,000 prior to the Acquisition Date (\$0.1685 per share of Common Stock, as converted). In addition, dividends of \$59,286,000 (\$27.975 per share of Common Stock) were paid to the PMC Commercial stockholders, which includes the \$27.50 per share of Common Stock special dividend plus the \$0.475 pro rata portion of PMC Commercial's regular quarterly cash dividend.

On March 24, 2014, we declared a common share dividend of \$0.05 per share of Common Stock and a preferred dividend of \$0.0403 per share of preferred stock (\$0.0285 per share of Common Stock, as converted), all of which were paid on March 28, 2014.

On April 28, 2014, we declared a dividend in the aggregate amount of \$1,964,000 to the preferred stockholders (\$0.0302 per share of preferred stock and \$0.0215 per share of Common Stock as converted) in connection with the conversion of shares of preferred stock to shares of Common Stock, which was paid on June 27, 2014.

On June 12, 2014, we declared a common share dividend of \$0.21875 per share of Common Stock which was paid on June 27, 2014.

On September 12, 2014, we declared a common share dividend of \$0.21875 per share of Common Stock which was paid on September 29, 2014.

**ITEM 3.**

**Quantitative and Qualitative Disclosures About Market Risk**

The fair value of CIM Commercial's mortgages payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis is generally used to estimate the fair value of CIM Commercial's mortgages payable, using rates ranging from 4.10% to 4.30% at September 30, 2014 and 4.85% to 5.00% at December 31, 2013. Mortgages payable with book values of \$225,674,000 and \$231,105,000 as of September 30, 2014 and December 31, 2013, respectively, have a fair value of approximately \$232,463,000 and \$231,250,000, respectively.

CIM Commercial'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 Commercial 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 Commercial historically financed its properties with long term, fixed rate mortgage loans. At September 30, 2014 and December 31, 2013 (excluding premiums and discounts on assumed mortgages), \$223,508,000 (or 36.0%) and \$228,319,000 (or 58.2%) of CIM Commercial's debt was fixed rate mortgage loans, and \$397,429,000 (or 64.0%) and \$164,000,000 (or 41.8%) was floating rate borrowings. Based on the level of floating rate debt outstanding at September 30, 2014 and December 31, 2013, a 12.5 basis point change in LIBOR would result in an annual impact to CIM Commercial's earnings of approximately \$497,000 and \$205,000, respectively. CIM Commercial 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 Commercial's floating rate debt.

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**ITEM 4.**  
**Controls and Procedures**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, as of September 30, 2014, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

On March 11, 2014, we consummated the Merger as described under "Executive Summary The Merger" in Item 2 above. As a result of the Merger, our management is analyzing, evaluating and, where necessary, implementing changes in controls and procedures. Due to the significance of the Merger and the limited period of time since the Acquisition Date, we did not have sufficient resources available to assess any change in our internal controls over financial reporting with respect to CIM Urban for the quarter ended September 30, 2014. Therefore, we excluded CIM Urban from our evaluation of change in internal controls over financial reporting contained in this quarterly report. However, management considers the operations of CIM Urban material to our consolidated financial position, results of operations and cash flows and believes that the disclosure controls and procedures of CIM Urban will have a material effect on internal controls over financial reporting. CIM Urban will be included in the overall assessment of, and report on, internal controls over financial reporting as of December 31, 2014.

**PART II**  
**Other Information**

**ITEM 1. Legal Proceedings**

We are not currently involved in any material pending or threatened legal proceeding nor, to our knowledge, is any material legal proceeding currently threatened against us, other than routine litigation arising in the ordinary course of business. In the normal course of business we are periodically party to certain legal actions and proceedings involving matters that are generally incidental to our business. While the outcome of these legal actions and proceedings cannot be predicted with certainty, in management's opinion, the resolution of these legal proceedings and actions will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**ITEM 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

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**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

A.

Exhibits

- 3.1 Articles of Amendment and Restatement of PMC Commercial Merger Sub, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
- 3.1(a) Articles of Amendment (Name Change) (incorporated by reference to Exhibit 3.4 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
- 3.1(b) Articles of Amendment (Reverse Stock Split) (incorporated by reference to Exhibit 3.5 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
- 3.1(c) Articles of Amendment (Par Value Decrease) (incorporated by reference to Exhibit 3.6 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
- 3.2 Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
- 10.1 Credit Agreement, dated as of August 28, 2013, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, Bank of America, N.A., as Administrative Agent, JPMorgan Chase Bank, N.A. as Syndication Agent and the other Lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
- 10.2 Consent and First Amendment to Credit Agreement, dated as of October 16, 2013, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, each Lender party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
- 10.3 Second Amendment to Credit Agreement, dated as of April 7, 2014, among CIM Urban Partners, L.P., each Lender party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
- 10.4 Credit Agreement, dated as of February 6, 2012, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, N.A., as Syndication Agent and the other Lenders party thereto (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).

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- 10.5 First Amendment to Credit Agreement, dated as of August 28, 2013, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, each Lender party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
- 10.6 Consent and Second Amendment to Credit Agreement, dated as of October 16, 2013, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, each Lender party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
- 10.7 Third Amendment to Credit Agreement, dated as of April 7, 2014, among CIM Urban Partners, L.P., each Lender party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
- 10.8 Service Agreement, dated as of August 7, 2014, by and among CIM Commercial Trust Corporation and CIM Service Provider, LLC, under the Master Services Agreement dated March 11, 2014, by and among PMC Commercial Trust, certain of its subsidiaries, and CIM Service Provider, LLC (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014).
- 10.9 Form of Indemnification Agreement for directors and officers of CIM Commercial Trust Corporation (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014).
- 10.10 Third Amendment to the Credit Agreement, dated as of July 19, 2014, among CIM Urban Partners, L.P., each Lender party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 1, 2014).
- 10.11 Credit Agreement, dated as of September 30, 2014, among CIM Commercial Trust Corporation, each guarantor party thereto, each lender party thereto, Bank of America, N.A., as Administrative Agent, and JPMorgan Chase Bank, N.A. as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 1, 2014).
- \*31.1 Section 302 Officer Certification Chief Executive Officer
- \*31.2 Section 302 Officer Certification Chief Financial Officer
- \*\*32.1 Section 906 Officer Certification Chief Executive Officer
- \*\*32.2 Section 906 Officer Certification Chief Financial Officer
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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\*  
Filed herewith.

\*\*  
Furnished herewith

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIM Commercial Trust Corporation

Date: November 10, 2014

/s/ CHARLES E. GARNER II

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Charles E. Garner II  
*Chief Executive Officer*  
*(Principal Executive Officer)*

Date: November 10, 2014

/s/ DAVID THOMPSON

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David Thompson  
*Chief Financial Officer*  
*(Principal Accounting Officer)*

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#### Exhibit Index

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of PMC Commercial Merger Sub, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
3.1(a)	Articles of Amendment (Name Change) (incorporated by reference to Exhibit 3.4 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
3.1(b)	Articles of Amendment (Reverse Stock Split) (incorporated by reference to Exhibit 3.5 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
3.1(c)	Articles of Amendment (Par Value Decrease) (incorporated by reference to Exhibit 3.6 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
10.1	Credit Agreement, dated as of August 28, 2013, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, Bank of America, N.A., as Administrative Agent, JPMorgan Chase Bank, N.A. as Syndication Agent and the other Lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
10.2	Consent and First Amendment to Credit Agreement, dated as of October 16, 2013, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, each Lender party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
10.3	Second Amendment to Credit Agreement, dated as of April 7, 2014, among CIM Urban Partners, L.P., each Lender party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
10.4	Credit Agreement, dated as of February 6, 2012, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, N.A., as Syndication Agent and the other Lenders party thereto (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
10.5	First Amendment to Credit Agreement, dated as of August 28, 2013, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, each Lender party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
10.6	Consent and Second Amendment to Credit Agreement, dated as of October 16, 2013, among CIM Urban Partners, L.P., CIM Urban REIT, LLC, each Lender party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).
10.7	Third Amendment to Credit Agreement, dated as of April 7, 2014, among CIM Urban Partners, L.P., each Lender party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed with the SEC on April 11, 2014).

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<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.8	Service Agreement, dated as of August 7, 2014, by and among CIM Commercial Trust Corporation and CIM Service Provider, LLC, under the Master Services Agreement dated March 11, 2014, by and among PMC Commercial Trust, certain of its subsidiaries, and CIM Service Provider, LLC (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014).
10.9	Form of Indemnification Agreement for directors and officers of CIM Commercial Trust Corporation (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014).
10.10	Third Amendment to the Credit Agreement, dated as of July 19, 2014, among CIM Urban Partners, L.P., each Lender party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 1, 2014).
10.11	Credit Agreement, dated as of September 30, 2014, among CIM Commercial Trust Corporation, each guarantor party thereto, each lender party thereto, Bank of America, N.A., as Administrative Agent, and JPMorgan Chase Bank, N.A. as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 1, 2014).
*31.1	Section 302 Officer Certification Chief Executive Officer
*31.2	Section 302 Officer Certification Chief Financial Officer
**32.1	Section 906 Officer Certification Chief Executive Officer
**32.2	Section 906 Officer Certification Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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Filed herewith.

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Furnished herewith

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