SHELBOURNE PROPERTIES II INC
Form 10-K
March 26, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[ X ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003
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: 0-15753

SHELBOURNE PROPERTIES II, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 04-3502382 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identi |
| 7 Bulfinch Place - Suite 500<br>Boston, MA | 02114 |
| (Address of principal executive offices) | (Zip Code) |

(617) 570-4600
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EXCHANGE ON WHICH |
|---|---|
| Common Stock, $0.01 par value | American Stock Excha |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EXCHANGE ON WHICH |
|---|---|
| None | None |

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined by Exchange Act Rule 12b-2). Yes [ ] No [X]



As of March 1, 2004, there were 894,792 common shares of beneficial interest outstanding

At June 30, 2003, the aggregate market value of the common shares of beneficial interest held by non-affiliates was $15,976,243.

DOCUMENTS INCORPORATED BY REFERENCE

None.



SHELBOURNE PROPERTIES II, INC.
CROSS REFERENCE SHEET PURSUANT TO ITEM G,
GENERAL INSTRUCTIONS TO FORM 10-K

ITEM OF FORM 10-K

PART I

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements relating to our business and financial outlook, which are based on our current expectations, estimates, forecasts and projections. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These forward-looking statements are not guarantees of future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any such statement to reflect new information, the occurrence of future events or circumstances or otherwise.



A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, the risks described under "Item 1. Business - Risk Factors" in this Form 10-K.

PART I

ITEM 1. BUSINESS

In this Form 10-K, the terms "we," "us," "our" and "our company" refer either to the combined operations of all of Shelbourne Properties II, Inc., Shelbourne Properties II GP LLC and Shelbourne Properties II L.P. or to Shelbourne Properties II, Inc., independently, as the context requires.

OVERVIEW

Our company, Shelbourne Properties II, Inc., a Delaware corporation (the "Corporation"), was formed on February 8, 2001 and is engaged in the business of operating and holding for investment previously acquired income-producing properties. As of March 24, 2004, we operate and hold one office building, a 50% interest in an office building and one shopping center. In addition, the Corporation owns an interest in 20 motel properties that are triple-net leased to an affiliate of Accor S.A. See "Corporate History-The Accotel Transaction" and "Item 2. Properties" for a description of our properties.

We own our property portfolio through our directly and indirectly wholly owned subsidiary, Shelbourne Properties II L.P. (the "Operating Partnership"), a Delaware limited partnership. The Operating Partnership owns our property portfolio directly or through joint ventures with affiliated entities (Shelbourne Properties I L.P. and Shelbourne Properties III L.P.). The general partner of the Operating Partnership is Shelbourne Properties II GP LLC, a Delaware limited liability company that is wholly-owned by the Corporation.

Our primary business objective is to maximize the value of our common stock. Prior to October 29, 2002, we sought to achieve this objective by managing our existing properties, making capital improvements to and/or selling properties and by making additional real estate-related investments. On October 29, 2002, the stockholders of the Corporation adopted a plan of liquidation. Accordingly, on such date the Corporation was dissolved and has been seeking to liquidate its assets. Since October 29, 2002, the Corporation has sold its properties located in Raleigh, North Carolina; Hilliard, Ohio; New York, New York; Melrose Park, Illinois; San Diego, California; Grove City, Ohio and Orange, Ohio. It is expected that the remaining properties will be sold at such time as market conditions enable the Corporation to maximize the sale price. See "Corporate History-The HX Transaction; The Plan of Liquidation" below.

Our Board of Directors currently consists of six directors. See "Employees" below for information relating to the provision by affiliates of property management services, asset management services, investor relation services and accounting services to us.

The Corporation has operated with the intention of qualifying as a real estate investment trust for U.S. Federal Income Tax purposes ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986 as amended. Under those sections, a REIT which pays at least 90% of its ordinary taxable income as a dividend to its stockholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its stockholders.

We have adopted a plan of liquidation that requires us to liquidate all of our assets and liabilities by October 29, 2004. Dividends paid during our liquidation generally will not be taxable to the stockholder until the dividends paid exceed the adjusted tax basis in the stockholder's shares, and then will be taxable as long-term capital gain assuming the shares as capital assets have been held for more than 12 months when the stockholder receives the dividend as a result of the adoption of the plan of liquidation. As a result of the sale of substantially all of our assets and in light of the costs associated with maintaining public company, it is expected that our remaining assets will be transferred to a liquidating trust as early as April 2004 and in lieu of owning shares, each stockholder will own a beneficial interest of an equivalent percentage in the liquidating trust. In this regard, on March 17, 2004, the holder of the Class A Units agreed to retain its beneficial ownership of the motel properties and relinquish its right to require the acquisition of other properties, thereby enabling the Corporation to set up liquidating trusts to complete its liquidation as early as April 16, 2004. See, "Property Sales/Acquistions-The Accotel Transaction" below. Accordingly, at such time as the assets of the Corporation are distributed to a liquidating trust, which is presently expected to be April 16, 2004, the transferability of interests in the trust will be significantly restricted as compared



to the shares in the Corporation, and the stockholders, as holders of beneficial interests, will be required to include in their own income their pro rata share of the trust's taxable income whether or not that amount is actually distributed by the trust in that year. Further, for federal income tax purposes, on April 16, 2004, each stockholder of the Corporation on the Record Date will be deemed to have received a pro rata share of the assets of the Corporation to be transferred to the Liquidating Trust, reduced by such stockholder's pro rata share of the liabilities of the Corporation assumed by the Liquidating Trust. Based on the estimates used by management to determine net realizable value of the Corporation's assets at December 31, 2003, the estimated net realizable value of the Corporation is approximately $17.4 million or $17.04 per common share. The foregoing estimate is based on the carrying values of the current assets of the Corporation as well as the current account payables of the Corporation and estimates as to future costs associated with transferring the assets to the Liquidating Trust, maintaining the Liquidating Trust and insurance coverage. Accordingly, the ultimate value realized may be significantly less or more than the estimated amount.

CORPORATE HISTORY

Predecessor Partnership. Prior to the merger described below, the owner of the Corporation's properties was High Equity Partners L.P. - Series 86, a Delaware limited partnership (the "Predecessor Partnership"). The Predecessor Partnership was formed as of November 14, 1985. Prior to November 3, 1994, the Predecessor Partnership's General Partners ("Predecessor General Partners") were owned and controlled by Integrated Resources, Inc. On November 3, 1994, Presidio Capital Corporation ("Presidio") acquired the Predecessor General Partners. Effective July 31, 1998, NorthStar Capital Investment Corp., a Maryland corporation, acquired control of Presidio.

In 1986 and 1987, the Predecessor Partnership offered 800,000 units of limited partnership interests (the "Units"). Upon final admission of limited partners, the Predecessor Partnership had accepted subscriptions for 588,010 units for an aggregate of $147,002,500 in gross proceeds, resulting in net proceeds from the offering of $142,592,500 (gross proceeds of $147,002,500 less organization and offering costs of $4,410,000). Subsequent to the conversion discussed below, the Units were converted into shares of the Corporation on a two for one basis. Throughout the rest of this document, rather than referring to Units, we will refer to shares on a converted basis. The Predecessor Partnership invested substantially all of its total adjusted net proceeds, after establishing a working capital reserve, in real estate.

In April 1999, the California Superior Court approved the terms of the settlement of a class action and derivative litigation involving the Predecessor Partnership. Under the terms of the settlement, the Predecessor General Partners agreed to take the actions described below subject to first obtaining the consent of limited partners to amendments to the Agreement of Limited Partnership of the Predecessor Partnership (the "Predecessor Partnership Agreement") summarized below. The settlement became effective in August 1999 following approval of the amendments.

As amended, the Predecessor Partnership Agreement (a) provided for a Partnership Asset Management Fee payable to the Predecessor General Partners or their affiliates commencing with the year ended December 31, 2000 equal to 1.25% of the Gross Asset Value of the Predecessor Partnership (as defined in that agreement) and a fixed 1999 Partnership Asset Management Fee of $973,293 ($312,139 less than the amount that would have been paid under the pre-amendment formula) and (b) fixed the amount that the Predecessor General Partners would be liable to pay to limited partners upon liquidation of the Predecessor Partnership as repayment of fees previously received (the "Fee Give-Back Amount"). As amended, the Predecessor Partnership Agreement provided that, upon a reorganization of the Predecessor Partnership into a REIT or other public entity, the Predecessor General Partners would have no further liability to pay the Fee Give-Back Amount. As a result of the conversion of the Predecessor Partnership into a REIT on April 17, 2001, as described below, the Predecessor General Partners' liability to pay the Fee Give-Back Amount was extinguished.

As required by the settlement, an affiliate of the Predecessor General Partners, Millennium Funding III, LLC, made a tender offer to limited partners to acquire up to 39,596 Units (representing approximately 6.7% of the outstanding Units) at a price of $103.05 per Unit. The offer closed in January 2000 and all 39,569 Units were acquired in the offer. On a post-conversion basis, the tender offer was for the equivalent of 79,138 shares at a price of $51.53 per share.



The final requirement of the settlement obligated the Predecessor General Partners to use their best efforts to reorganize the Predecessor Partnership into a REIT or other entity whose shares were listed on a national securities exchange or on the NASDAQ National Market System. A Registration Statement was filed with the Securities and Exchange Commission on February 11, 2000 with respect to the restructuring of the Predecessor Partnership into a publicly traded REIT. On or about February 15, 2001 a prospectus/consent solicitation statement was mailed to the limited partners of the Predecessor Partnership seeking consent to the reorganization of the Predecessor Partnership into a REIT.

The consent of limited partners was sought to approve the conversion of the Predecessor Partnership into the Operating Partnership. The consent solicitation expired April 16, 2001 and holders of a majority of the Units approved the conversion.

On April 17, 2001, the conversion was accomplished by merging the Predecessor Partnership into the Operating Partnership. Pursuant to the merger, each limited partner of the Predecessor Partnership received two shares of stock of the Corporation for each Unit they owned and the Predecessor General Partners received an aggregate of 61,896 shares of stock in the Corporation in exchange for their general partner interests in the Predecessor Partnership. In connection with the merger, the Company entered into an advisory agreement (the "Advisory Agreement") with Shelbourne Management, LLC ("Shelbourne Management") to provide accounting, asset management, treasury, cash management and investor related services management to the Company. Shelbourne Management is a wholly-owned subsidiary of Presidio Capital Investment Company, LLC ("PCIC"), which was also the sole stockholder of Presidio. The Advisory Agreement had a term of 10 years and provided for fees payable to Shelbourne Management of (1) the Asset Management Fee previously payable to the Predecessor General Partners or their affiliates, (2) $200,000 for non-accountable expenses and (3) reimbursement of expenses incurred in connection with performance of its services. In addition, Shelbourne Management was entitled to receive a property management fee equal to up to 6% of property revenues.

The Presidio Transaction. On February 14, 2002, the Corporation, Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. (together the "Companies") announced the consummation of a transaction (the "Transaction") whereby the Companies (i) purchased their respective Advisory Agreement and (ii) repurchased all of the shares of capital stock in the Companies held by subsidiaries of PCIC (the "PCIC Shares").

Pursuant to the Transaction, for the Advisory Agreements and the PCIC Shares, the Companies paid PCIC an aggregate of $44,000,000 in cash, issued preferred partnership interests in their respective operating partnerships with an aggregate liquidation preference of $2,500,000, and issued notes with a stated amount between approximately $54,300,000 and $58,300,000, depending upon the timing of the repayment of the notes. These notes were subsequently satisfied for $54,300,000 from the proceeds of the Hypo Loan described below.

Pursuant to the Transaction, the Corporation paid PCIC approximately $17,900,000 in cash and the Operating Partnership issued preferred partnership interests (the "Class A Units") with an aggregate liquidation preference of $1,015,148 and a note with an aggregate stated amount between approximately $22,000,000 and $23,600,000, depending upon the timing of the repayment of the note. This note was subsequently satisfied for approximately $22,000,000 from the proceeds of the Hypo Loan described below.

The Transaction was unanimously approved by the Boards of Directors of each of the Companies at such time after recommendation by their respective Special Committees comprised of the Companies' three independent directors.

Houlihan Lokey Howard & Zukin Capital served as financial advisor to the Special Committees of the Companies and rendered a fairness opinion to the Special Committees with respect to the Transaction.

The foregoing description of the Transaction does not purport to be complete, and it is qualified in its entirety by reference to the Purchase and Contribution Agreement, dated as of February 14, 2002, the Secured Promissory Note, dated February 14, 2002 and the Partnership Unit Designations of Class A Preferred Partnership Units of Shelbourne Properties II L.P., copies of which are attached as exhibits to our current report on form 8-K filed on February 14, 2002, and are incorporated by reference herein.

The HX Transaction; Plan of Liquidation. On July 1, 2002, the Corporation entered into a settlement agreement with respect to certain outstanding litigation brought by HX Investors, L.P. ("HX Investors") in the Chancery Court of Delaware against the Companies. At the same time, the Companies entered into a letter agreement settling other outstanding litigation brought by stockholders against the Companies, subject to approval by the court of a stipulation of settlement. In connection with the settlements, the Corporation entered into a stock purchase agreement (the "Stock Purchase Agreement") with HX Investors and Exeter Capital Corporation ("Exeter"), the general partner of HX Investors, pursuant to which HX Investors, the then owner of approximately 12% of the outstanding common stock of the Corporation, was granted a waiver by the Corporation from the stock ownership limitation (8% of the outstanding shares) set forth in the Corporation's Certificate of Incorporation to permit HX Investors to acquire up to 42% of the outstanding shares of the Corporation's common stock and HX Investors agreed to conduct a tender offer for up to an additional 30% of the Corporation's outstanding stock at a price per share of $62.00 (the "HX Investors Offer"). The tender offer commenced on July 5, 2002 following the filing of the required tender offer documents with the Securities and Exchange Commission by HX Investors. In addition, pursuant to the terms of the settlement, Shelbourne Management agreed to pay to HX Investors 42% of the amounts paid to Shelbourne Management with respect to the Class A Units.

Pursuant to the Stock Purchase Agreement, the board of directors of the Corporation approved a plan of liquidation for the Corporation (the "Plan of Liquidation") and agreed to submit the Plan of Liquidation to its stockholders for approval. HX Investors agreed to vote all of its shares in favor of the Plan of Liquidation. Under the Plan of Liquidation, HX Investors was to receive an incentive payment (the "Incentive Fee") of 25% of gross proceeds after the payment of a priority return of approximately $66.25 per share was made to the stockholders of the Corporation.

Subsequently, on July 29, 2002, Longacre Corp. ("Longacre") commenced a lawsuit individually and derivatively against the Companies, their boards, HX Investors, and Exeter seeking preliminary and permanent injunctive relief and monetary damages based on purported violations of the securities laws and mismanagement related to the tender offer by HX Investors, the Stock Purchase Agreement, and the Plan of Liquidation. The suit was filed in federal district court in New York, New York. On August 1, 2002, the court denied Longacre's motion for a preliminary injunction, and the court dismissed the lawsuit on September 30, 2002, at the request of Longacre.

Contemporaneous with filing its July 29, 2002 lawsuit, Longacre publicly announced that its related companies, together with outside investors, were prepared to initiate a competing tender offer for the same number of shares of common stock of the Corporation as were tendered for under the HX Investors Offer, at a price per share of $68.20. Over the course of the next several days, Longacre and HX Investors submitted competing proposals to the board of directors of the Corporation and made those proposals public. On August 4, 2002, Longacre notified the Corporation that it was no longer interested in proceeding with its proposed offer.

On August 5, 2002, the Corporation entered into an amendment to the Stock Purchase Agreement. Pursuant to the terms of the amendment, the purchase price per share offered under the HX Investors Offer was increased from $62.00 to $73.85. The amendment also reduced the Incentive Fee payable to HX Investors under the Plan of Liquidation from 25% to 15% of gross proceeds after payment of the approximately $66.25 per share Priority Return to stockholders of the

Corporation plus interest thereon compounded quarterly at 6% per annum (the "Priority Return"), and included certain corporate governance provisions. After giving effect to dividends paid from August 19, 2002 to March 24, 2004, the remaining unpaid per share Priority Return to stockholders is $3.20.

On August 16, 2002, the HX Investors Offer expired and HX Investors acquired 268,444 shares representing 30% of the outstanding shares.

On August 19, 2002, as contemplated by the Stock Purchase Agreement, the existing Board of Directors and executive officer of the Corporation resigned, and the Board was reconstituted to consist of six members, four of whom are independent directors. In addition, new executive officers were appointed.

Also on August 19, 2002, the Board of Directors of the Corporation authorized the issuance by the Operating Partnership of Class B Units to HX Investors which Class B Units were to be issued in full satisfactory of the Incentive Fee. The Class B Units provide distribution rights to HX Investors consistent with the intent and



financial terms of the incentive payment provided for in Stock Purchase Agreement described above. On August 19, 2002, the Operating Partnership issued the Class B Units to HX Investors in full satisfaction of the Incentive Fee otherwise required under the Plan of Liquidation.

On October 29, 2002, the stockholders of the Corporation approved the Plan of Liquidation. As a result, the Operating Partnership has been seeking, and will seek to, sell its remaining properties at such time as it is believed that the sale price for such property can be maximized. Since the adoption of the Plan of Liquidation, the Corporation has sold its properties located in Raleigh, North Carolina; Hilliard, Ohio; New York, New York; Melrose Park, Illinois; San Diego, California; Grove City, Ohio; and Orange, Ohio, and has paid dividends totaling $65.25 as follows: $14.00 per share on November 21, 2002, $14.50 on January 31, 2003, $30.00 on March 18, 2003 and $6.75 on July 9, 2003. Pursuant to the Plan of Liquidation, if all of the assets of the Corporation are not disposed of prior to October 29, 2004, the remaining assets will be placed in a liquidating trust and the stockholders of the Corporation will receive a beneficial interest in such trust in total redemption of their shares in the Corporation.

The foregoing description of Stock Purchase Agreement is qualified in its entirety by reference to such agreement, a copy of which is attached as an exhibit to the Corporation's Current Reports on Form 8-K filed on July 2, 2002 and August 5, 2002, which is incorporated herein by reference. The foregoing description of Plan of Liquidation is qualified in its entirety by reference to the Plan of Liquidation, a copy of which is attached as an exhibit to the Corporation's Definitive Proxy Statement filed on September 29, 2002, which is incorporated herein by reference.

FINANCINGS

The Hypo Loan. On May 1, 2002, the operating partnerships of the Companies and certain of the operating partnerships' subsidiaries entered into a $75,000,000 revolving credit facility with Bayerische Hypo-Und Vereinsbank AG, New York Branch, as agent for itself and other lenders (the "Credit Facility" or "Hypo Loan"). The Credit Facility was subsequently satisfied on February 20, 2003 from proceeds of the Fleet Loan. See "Fleet Loan" below.

The Fleet Loan. Under the terms of the Credit Facility, upon the sale of the New York, New York property which was sold on February 28, 2003, the proceeds from such sale would first have been required to satisfy the Credit Facility. As a result, upon the sale of the New York property, the Corporation risked not being able to satisfy the requirements to maintain its REIT status as it was likely that dividends in 2003, absent unforeseeable occurrences, would not have been equal to at least 90% of the Corporation's ordinary taxable income. Accordingly, on February 20, 2003, in a transaction designed to alleviate this problem as well as provide flexibility to the Companies in implementing their respective plans of liquidation, direct and indirect subsidiaries of each of the Companies (the "Borrowers") entered into a Loan Agreement with Fleet National Bank, as agent for itself and other lenders ("Fleet") pursuant to which the Borrowers obtained a $55,000,000 loan (the "Fleet Loan"). The entering into of this Fleet Loan transaction enabled 100% of the net proceeds from the sale of its 568 Broadway Joint Venture (the New York property) to be paid as a dividend by the Corporation as the New York property was not security for the Fleet Loan.



The Borrowers were jointly and severally liable for the repayment of the amounts due under the Fleet Loan and the Operating Partnership and the Corporation (as well as the other operating partnerships and Companies) have guaranteed the repayment of the Fleet Loan. The proceeds of the Fleet Loan were used to satisfy the Credit Facility that had an aggregate balance due of $37,417,249. The Credit Facility was satisfied by delivery of $27,417,249 in cash and a $10,000,000 note from 568 Broadway Joint Venture (the "568 Note"), which note was then acquired by Manufacturers Traders and Trust Company. In connection with the assignment of the 568 Note, the purchase agreement with respect to the property held by 568 Joint Venture was amended to provide that the buyer would acquire the property subject to the 568 Note and would receive a credit of $10,000,000 at closing. After satisfying the Credit Facility, establishing a capital improvements reserve of $5,000,000 in the aggregate ($2,637,500 of which is allocable to the Corporation), a $10,000,000 reserve ($3,892,500 of which is allocable to the Corporation) to be released upon the earlier of the sale of the 568 Property or the satisfaction of the 568 Note and costs associated with consummating the Fleet Loan, the net proceeds received by the Companies was approximately $11,000,000 in the aggregate, which proceeds, together with the $10,000,000 reserve that was released from escrow on March 3, 2003, were paid to stockholders as part of the March 2003 dividend.

The Fleet Loan was subsequently satisfied on December 11, 2003 from the proceeds of the sales of properties owned by the Corporation, Shelbourne Properties I, Inc., and Shelbourne Properties III, Inc. as mandated by the Plan of Liquidation. The remaining balance in the capital improvement reserve of $4,260,819 was also released at that date of which $1,930,000 was allocable to the Corporation.

RELATED PARTY LOAN PAYABLE

In connection with the Fleet Loan financing, the Corporation, Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. entered into Indemnity, Contribution and Subrogation Agreements, the purpose and intent of which was to place operating partnerships in the same position (as among each other) as each would have been had the lender made three separate loans. Under the terms of the Fleet Loan, Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. were required to utilize a portion of their proceeds generated by property sales to make principal payments on the Fleet Loan on behalf of the Corporation. In accordance with the terms of the Indemnity, Contribution and Subrogation Agreements, the portion of the Corporation's principal payments made by Shelbourne Properties I, Inc., in the amount of $1,349,257, and Shelbourne Properties III, Inc., in the amount of $5,371,444 are recorded as loan payables that are secured by the Corporation's interests in the entities that own its properties. The principal and accrued interest due to Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. at December 31, 2003 are $1,352,307 and $5,383,586, respectively. The loans payable require payment of interest under the same terms as the Fleet Loan, which is LIBOR plus 2.75% (3.875% at December 31, 2003).

PROPERTY SALES/ACQUISITIONS

The Accotel Transaction. As discussed above, in connection with the Transaction, the Operating Partnership issued the Class A Units to Shelbourne Management. Pursuant to the terms of the Purchase and Contribution Agreement pursuant to which the Class A Units were issued, the holder of the Class A Units had the right to cause the Operating Partnership to purchase the Class A Units at a substantial premium to their liquidation value ($6,605,000 at the January 15, 2003) unless the Operating Partnership, together with the operating partnerships of Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. (together with the Operating Partnership, the "Shelbourne OPs") maintained at least approximately $54,200,000 of aggregate indebtedness ($22,026,000 in the case of the Operating Partnership) guaranteed by the holder of the Class A Units and secured by assets having an aggregate market value of at least approximately $74,800,000 ($30,400,000 in the case of the Operating Partnership) (the "Debt and Asset Covenant"). These requirements significantly impaired the ability of the Corporation to sell its properties and pay dividends in accordance with the Plan of Liquidation.

Accordingly, in a transaction (the "Accotel Transaction") designed to facilitate the liquidation of the Corporation and provide dividends to stockholders, on January 15, 2003, a joint venture owned by the Shelbourne OPs acquired from Realty Holdings of America, LLC, an unaffiliated third party, a 100% interest in an entity that owns 20 motel properties triple net leased to an affiliate of Accor S.A. The cash purchase price, which was provided from working capital, was $2,668,272, of which $867,806, $1,079,675 and $720,791 was paid by Shelbourne Properties I L.P., the Operating Partnership and Shelbourne Properties III L.P., respectively. The properties are also subject to existing mortgage indebtedness in the principal amount of approximately $74,220,000.

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The Accor S.A. Properties were acquired for the benefit of the holder of the Class A Units as they provide sufficient debt to be guaranteed by the holder of the Class A Units. Except as indicated below, the Class A Unitholder will ultimately be the sole owner of the joint venture. In connection with the Accotel Transaction, the terms of the Class A Units were amended to (i) eliminate the liquidation preferences (as the cost of the interest in the Accor S.A. Properties which was borne by the Shelbourne OPs satisfied the liquidation preference) and (ii) eliminate the Debt and Asset Covenant. The holder of the Class A Units does, however, continue to have the right, under certain limited circumstances which the Companies do not anticipate will occur, to cause the Shelbourne OPs to purchase their respective Class A Units at the premium described above. These circumstances include the occurrence of the following while any of the Class A Units are outstanding; (i) the filing of bankruptcy by a Shelbourne OP; (ii) the failure of a Shelbourne OP to be taxed as a partnership; (iii) the termination of the Advisory Agreement; (iv) the issuing of a guaranty by any of the Companies on the debt securing the Accor S.A. Properties; or (v) the taking of any action with respect to the Accor S.A. Properties without the consent of the Class A Unitholder.

The holder of the Class A Units had the right, which right was to be exercised by no later than July 28, 2004, to require that the Shelbourne OPs acquire other properties for the Class A Unitholder's benefit at an aggregate cash cost to the Shelbourne OPs of not more than $2,500,000 (approximately $1,015,000 of which would be paid by the Operating Partnership). In that event, the Accor S.A. Properties would not be held for the benefit of the holder of the Class A Units and the Companies would seek to dispose of these properties as part of the liquidation of the Companies. Accordingly, if the Class A Unitholder were to exercise this option, there is a risk that the Companies' interest in the Accor S.A. Properties could not be sold for their original purchase price. On March 18, 2004, an agreement was entered into with the holder of the Class A Units pursuant to which the holder of the Class A Units elected to retain title to the Accor S.A. Properties. Accordingly, it is presently expected that on April 16, 2004, all assets of the Operating Partnership, other than its interest in the entity that indirectly holds title to the Accor S.A. Properties, will be distributed to the Corporation in full redemption of the Corporation's interest in the Operating Partnership and the Corporation will transfer such assets to a liquidating trust. In consideration of the Class A Unitholder electing to take title to the Accor S.A. Properties earlier than required, the Corporation waived its right to require the Class A Unitholder to reimburse it for up to $75,000 of costs associated with the acquisition of the Accor S.A. Properties and agreed to make a payment to the Class A Unitholder of approximately $41,667.

The Liquidating Trust will also assume the Corporation's then remaining liabilities. It is presently contemplated that April 15, 2004 (the "Record Date") will be the last day of trading of the Corporation's common stock on the American Stock Exchange, and the Corporation's stock transfer books will be closed as of the close of business on such date.

Under the terms of the proposed Trust Agreement, on April 16, 2004, each stockholder of the Corporation on the Record Date (each, a "beneficiary") automatically will become the holder of one unit of beneficial interest ("Unit") in the Liquidating Trust for each share of the Corporation's common stock then held of record by such stockholder. As provided in the Corporation's Plan of Liquidation, the holder of Class B Units in the Operating Partnership is entitled to receive 15% of all distributions made by the Corporation and the Liquidating Trust after such time as aggregate distributions by the Corporation and the Liquidating Trust from and after August 19, 2002 exceed a specified per share amount. After giving effect to dividends paid since August 19, 2002, the remaining unpaid per share amount as of March 15, 2004 was $3.21. After the specified per share amount has been received by beneficiaries, the holder of Class B Units will receive 15% of all subsequent distributions by the Liquidating Trust.

After April 16, 2004, all outstanding shares of the Corporation's common stock will be deemed cancelled, and the rights of beneficiaries in their Units will not be represented by any form of certificate or other instrument. Stockholders of the Corporation on the Record Date will not be required to take any action to receive their Units. The Trustee will maintain a record of the name and address of each beneficiary and such beneficiary's aggregate Units in the Liquidating Trust. Subject to certain exceptions related to transfer by will, intestate succession or operation of law, the Units will not be transferable, nor will a beneficiary have authority or power to sell or in any other manner dispose of any Units.

It is currently contemplated that the initial trustee (the "Trustee") of the Liquidating Trust will be Arthur N. Queler, who will receive a fee of $2,000 per month from the Liquidating Trust with a minimum aggregate fee during



the existence of the Liquidating Trust of $40,000. Further, pursuant to the terms of the proposed Trust Agreement, the Trustee will have the exclusive right to cause the Liquidating Trust to take such other action as he deems advisable in connection with the liquidation of the remaining assets including, without limitation, incur indebtedness on behalf of the Liquidating Trust, sell its remaining assets, pay any and all expenses of the Liquidating Trust and appoint such agents and delegates such powers as he deems advisable. Kestrel Management, L.P. ("Kestrel"), the current asset and property manager for the Corporation will continue to provide asset and property management services to Liquidating Trust on the same terms as currently provided to the Corporation. Successor trustees may be appointed to administer the Liquidating Trust in accordance with the terms of the Liquidating Trust Agreement. It is expected that from time to time the Liquidating Trust will make distributions of its assets to beneficiaries, but only to the extent that such assets will not be needed to provide for the liabilities (including contingent liabilities) assumed by the Liquidating Trust. No assurances can be given as to the amount or timing of any distributions by the Liquidating Trust.

For federal income tax purposes, on April 16, 2004, each stockholder of the Corporation on the Record Date will be deemed to have received a pro rata share of the assets of the Corporation to be transferred to the Liquidating Trust, subject to such stockholder's pro rata share of the liabilities of the Corporation assumed by the Liquidating Trust. Accordingly, on April 16, 2004 each stockholder will recognize gain or loss in an amount equal to the difference between (x) the fair market value of such stockholder's pro rata share of the assets of the Corporation that are transferred to the Liquidating Trust, reduced by such stockholder's pro rata share of the liabilities of the Corporation that are assumed by the Liquidating Trust, and (y) such stockholder's adjusted tax basis in the shares of the Corporation's common stock held by such stockholder on the Record Date. Based on the estimates used by management to determine net realizable value of the Corporation's assets at December 31 2003, the estimated net realizable value of the Corporation is approximately $17.4 million or $17.04 per common share. The foregoing estimate is based on the carrying values of the current assets of the Corporation as well as the current account payables of the Corporation and estimates as to future costs associated with transferring the assets to the Liquidating Trust, maintaining the Liquidating Trust and insurance coverage. Accordingly, the ultimate value realized may be significantly less or more than the estimated amount.

The Liquidating Trust is intended to qualify as a "liquidating trust" for federal income tax purposes. As such, the Liquidating Trust will be a complete pass-through entity for federal income tax purposes and, accordingly, will not itself be subject to federal income tax. Instead, each beneficiary will take into account in computing its taxable income, its pro rata share of each item of income, gain, loss and deduction of the Liquidating Trust, regardless of the amount or timing of distributions made by the Liquidating Trust to beneficiaries. Distributions, if any, by the Liquidating Trust to beneficiaries generally will not be taxable to such beneficiaries. The Trustee will furnish to beneficiaries of the Liquidating Trust a statement of their pro rata share of the assets transferred by the Corporation to the Liquidating Trust, less their pro rata share of the Corporation's liabilities assumed by the Liquidating

Trust. On a yearly basis, the Trustee also will furnish to beneficiaries a statement of their pro rata share of the items of income, gain, loss, deduction and credit (if any) of the Liquidating Trust to be included on their tax returns.

Property Sales. On October 29, 2002, the Corporation's stockholders approved the Plan of Liquidation. Accordingly the Corporation began selling its properties. Since the adoption of the Plan of Liquidation, the Company has sold the following properties:

Sutton Square. On December 20, 2002, the Corporation sold its property located in Raleigh, North Carolina commonly referred to as Sutton Square for a gross sales price of $16,750,000. After making the required payment under the Credit Facility of $6,000,000, adjustments for taxes and rents and a credit to the purchaser for improvements, as well as closing costs, net proceeds to the Operating Partnership were approximately $10,000,000.

568 Broadway. On February 28, 2003, 568 Broadway Joint Venture, a joint venture in which the Corporation indirectly held a 38.925% interest, sold its property located at 568 Broadway, New York, New York for a gross sales price of $87,500,000. After assumptions of the debt encumbering the property, closing adjustments and other closing costs, net proceeds were approximately $73,000,000, of which approximately $28,415,250 was allocated to the Operating Partnership.



Melrose Park. Also on February 28, 2003, the Corporation sold its property located in Melrose Park, Illinois for a gross sales price of $3,247,200. The Corporation received proceeds of $3,125,632 after closing costs. After closing adjustments, net proceeds were $2,934,617.

Century Park I. On April 29, 2003, Century Park I Joint Venture, a joint venture in which the Corporation indirectly held a 50% interest, sold its property located in San Diego, California for a gross sales price of $29,750,000. The Fleet Loan required that a payment of $20,000,000 be made to pay down the loan. After such payment, closing adjustments and other closing costs, net proceeds were $9,403,450, of which the Operating Partnership was allocated $4,701,725.

Tri-Columbus Associates. During 2003, a joint venture in which the Corporation held a 20.66% interest, sold all of its properties as described below.

On January 31, 2003, the Hilliard, Ohio, property was sold for a gross sales price of $4,600,000. After making the required payment under the Credit Facility of $2,300,000 (of which the Corporation was responsible for $475,180), closing adjustments and other closing costs, net proceeds were approximately $2,063,000, $426,330 of which is attributable to the Corporation's interest.

On June 18, 2003, the Grove City, Ohio property was sold for a gross sales price of $4,090,000. The Fleet Loan required principal payment equal to the greater of $3,300,000 or 90% of the net proceeds. After closing adjustments and costs the net proceeds were $3,938,286. As a result, the required principal payment was $3,544,457 of which the Corporation was allocated $732,285. The remaining proceeds after the principal payment were $393,829 of which the Corporation was allocated $81,365.

On December 11, 2003, the Orange, Ohio property was sold for a gross sales price of $13,900,000. After the required principal paydown of $9,200,000 of which the Corporation was allocated $1,900,720, closing costs and closing adjustments, the net proceeds amounted to $4,419,613, the Corporation was allocated $913,012.

COMPETITION

The leasing and sale of real estate is highly competitive. We compete for tenants with lessors and developers of similar properties located in our respective markets primarily on the basis of location, rent charged, services provided, and the design and condition of our buildings. In addition, we compete for purchasers with sellers of similar properties in the areas in which our properties are located. These factors are discussed more particularly in "Item 2. Properties" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Real Estate Market."

INDUSTRY SEGMENTS AND SEASONALITY

Our primary business is the ownership of office, retail and industrial properties. Our long-term tenants are in a variety of businesses, and no single tenant is significant to our business. Our business is not seasonal.

EMPLOYEES

Since the Corporation's inception, property management services, asset management services, investor relations services and accounting services have been provided to us by affiliates. See "Item 8. Financial Statements and Supplementary Data- Note 3" for additional information.

Asset Management Services. For the period January 1, 2001 through April 16, 2001, an affiliate of the Predecessor General Partners, Resources Supervisory, provided Asset Management Services for an annual fee equal to 1.25% of the Predecessor Partnership's gross asset value. In addition, the Predecessor Partnership was obligated to (i) pay $200,000 for non-accountable expenses and (ii) reimburse Resources Supervisory for expenses incurred in connection with the performance of its services.

Effective April 17, 2001 through February 14, 2002, all asset management services, investor relations services and accounting services (the "Asset Management Services") were provided by Shelbourne Management



pursuant to the terms of the Advisory Agreement. Under the terms of the Advisory Agreement, which agreement was approved by the stockholders of the Corporation in connection with the merger of the Predecessor Partnership with and into the Operating Partnership, Shelbourne Management received (1) an annual asset management fee, payable quarterly, equal to 1.25% of the gross asset value of the Corporation as of the last day of each year, (2) $200,000 for non-accountable expenses and (3) reimbursement of expenses incurred in connection with performance of its services. See "The Predecessor Partnership" above.

Effective February 14, 2002, the Advisory Agreement was contributed by Shelbourne Management to the Operating Partnership (see "The Presidio Transaction" above), Shelbourne Management ceased providing the Asset Management Services, and the Corporation retained PCIC to provide the Asset Management Services to the Corporation on a transitional basis at a reduced fee of $333,333 per annum.

Effective October 1, 2002, as contemplated by the Plan of Liquidation, the agreement with PCIC was terminated and Kestrel began providing the Asset Management Services for an annual fee of $200,000. Kestrel is an affiliate of our current Chief Executive Officer.

Property Management Services. During the years ended December 31, 2001, 2002 and 2003 property management services have been provided by Kestrel. For providing property management services, as approved by the stockholders of the Corporation in connection with the merger of the Predecessor Partnership with and into the Operating Partnership, Kestrel is entitled to receive a fee of up to 3% of the applicable property's revenues. Personnel at the properties perform services for the Corporation at the properties. Salaries for such on-site personnel are reimbursed by the Corporation.



RISK FACTORS

You should carefully consider the risks described below. These risks are not the only ones that our company may face. Additional risks not presently known to us or that we currently consider immaterial may also impair our business operations and hinder our ability to make expected distributions to our stockholders.

This Form 10-K also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below or elsewhere in this Form 10-K.

OUR ECONOMIC PERFORMANCE AND THE VALUE OF OUR REAL ESTATE ASSETS ARE SUBJECT TO THE RISKS INCIDENTAL TO THE OWNERSHIP AND OPERATION OF REAL ESTATE PROPERTIES.

Our economic performance, the value of our real estate assets and, therefore, the value of your investment are subject to the risks normally associated with the ownership, operation and disposal of real estate properties, including:

- changes in the general and local economic climate;
- the cyclical nature of the real estate industry and possible oversupply of, or reduced demand for, space in our core markets;
- the attractiveness of our prope to tenants and purchasers;
- changes in market rental rates ability to rent space on favora

- trends in the retail industry, in employment levels and in consumer spending patterns;
- changes in household disposable income;
- changes in interest rates and the availability of financing;
- competition from other properties;
- the bankruptcy or insolvency of tenants;
- the need to periodically renova repair and re-lease space and t thereof;
- increases in maintenance, insur and operating costs; and
- civil unrest, acts of terrorism earthquakes and other natural d acts of God that may result in losses.

In addition, applicable federal, state and local regulations, zoning and tax laws and potential liability under environmental and other laws may affect real estate values. Further, throughout the period that we own real property regardless of whether the property is producing any income, we must make significant expenditures, including property taxes, maintenance costs, insurance costs and related charges and debt service. The risks associated with real estate investments may adversely affect our operating results and financial position, and therefore the funds available for distribution to you as dividends.

WE CANNOT ASSURE THE AMOUNTS OR TIMING OF LIQUIDATING DIVIDENDS.

The Plan of Liquidation may not yield liquidating dividends equal to or greater than the recent market prices of the shares of common stock of the Corporation. In addition, the ability to sell real estate assets depends, in some cases, on the availability of financing to buyers on favorable terms. If such financing is not available, it may take longer than expected to sell our assets at desirable prices, and this may delay our ability to make liquidating dividends. There can be no assurance that we will be successful in disposing of our remaining assets for values approximating those currently estimated by us or that related liquidating dividends will occur within the currently estimated timetable.



THE AMOUNTS AND TIMING OF THE LIQUIDATING DIVIDENDS MAY BE ADVERSELY AFFECTED BY LIABILITIES AND INDEMNIFICATION OBLIGATIONS FOLLOWING ASSET SALES.

In selling our assets, we may be unable to negotiate agreements that provide for the buyers to assume all of the known and unknown liabilities relating to the assets, including, without limitation, environmental and structural liabilities. In addition, if we agree to indemnify the buyers for such liabilities, we may be unable to limit the scope or duration of such indemnification obligations to desirable levels or time periods. As a result, we have from time to time determined, and we may in the future determine, that it is necessary or appropriate to reserve cash amounts or obtain insurance in order to attempt to cover the liabilities not assumed by the buyers and to cover potential indemnifiable losses. There can be no assurance that such reserves and insurance will be sufficient to satisfy all liabilities and indemnification obligations arising after the sale of our assets, and any such insufficiencies may have a material adverse affect on the amounts and timing of the liquidating dividends made to our stockholders.

IF A SIGNIFICANT NUMBER OF OUR TENANTS DEFAULTED OR SOUGHT BANKRUPTCY PROTECTION, OUR CASH FLOWS, OPERATING RESULTS AND SALE PRICES WOULD SUFFER.

A tenant may experience a downturn in its business, which could cause the loss of that tenant or weaken its financial condition and result in the tenant's inability to make rental payments when due. In addition, a tenant of any of our properties may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of such tenant's lease and cause a reduction in our cash flows, and, accordingly, sale prices.

We cannot evict a tenant solely because of its bankruptcy. A court, however, may authorize a tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. In any event, it is unlikely that a bankrupt tenant will pay in full amounts it owes us under a lease. The loss of rental payments from tenants could adversely affect our cash flows and operating results and, accordingly, sale prices.

In October 2000, a tenant leasing approximately 29% of the property and operating a movie theater at our Matthews Township Festival property defaulted on its lease obligations as a result of its bankruptcy filing. The tenant rejected the lease in its bankruptcy and the space is now vacant.

OUR BUSINESS IS SUBSTANTIALLY DEPENDENT ON THE ECONOMIC CLIMATES OF THREE MARKETS.

As of March 24, 2004, our real estate portfolio consists of an office property in Richmond, Virginia, a 50% interest in an office property in Seattle, Washington and a retail property in Matthews, North Carolina. As a result, our business is substantially dependent on the economies of these markets. A material downturn in demand for office or retail space in any one of these markets could have a material impact on our ability to lease the office or retail space in our portfolio and may adversely impact our cash flows and operating results and, accordingly, sale prices.

OUR COMPETITORS MAY ADVERSELY AFFECT OUR ABILITY TO LEASE OUR PROPERTIES, WHICH MAY CAUSE OUR CASH FLOWS, OPERATING RESULTS AND SALE PRICES TO SUFFER.

We face significant competition from developers, managers and owners of office, retail and mixed-use properties in seeking tenants for our properties. Our properties face competition from similar properties in the same markets. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to make space available at lower prices than the space in our properties. Competition for tenants could have a material adverse affect on our ability to lease our properties and on the rents that we may charge or concessions that we must grant. If our competitors adversely impact our ability to lease our properties, our cash flows, operating results and sale prices may suffer.

ENVIRONMENTAL PROBLEMS AT OUR PROPERTIES ARE POSSIBLE, THEY MAY BE COSTLY AND THEY MAY ADVERSELY AFFECT OUR OPERATING RESULTS, FINANCIAL CONDITION AND SALE PRICES.

We are subject to various federal, state and local laws and regulations relating to environmental matters. Under these laws, we are exposed to liability primarily as an owner or operator of real property and, as such, we may be responsible for the cleanup or other remediation of contaminated property. Contamination for which we may be liable could include historic contamination, spills of hazardous materials in the course of our tenants' regular business operations and spills or releases of hydraulic or other toxic oils. An owner or operator can be liable for contamination or hazardous or toxic substances in some circumstances whether or not the owner or operator knew of, or was responsible for, the presence of such contamination or hazardous or toxic substances. In addition, the presence of contamination or hazardous or toxic substances on property, or the failure to properly clean up or remediate such contamination or hazardous or toxic substances when present, may materially and adversely affect our ability to sell or rent such contaminated property or to borrow using such property as collateral.

Environmental laws and regulations can change rapidly, and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse affect on our operating results or financial condition. We believe that our exposure to environmental liabilities under currently applicable laws is not material. We cannot assure you, however, that we currently know of all circumstances that may give rise to such exposure.

IF WE WERE REQUIRED TO ACCELERATE OUR EFFORTS TO COMPLY WITH THE AMERICANS WITH DISABILITIES ACT, OUR CASH FLOWS, OPERATING RESULTS AND SALE PRICES COULD SUFFER.

All of our properties must comply with the Americans with Disabilities Act, or the ADA. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require us to remove access barriers, and non-compliance could result in the imposition of fines by the U.S. Government or an award of damages to private litigants. We believe that the costs of compliance with the ADA will not have a material adverse affect on our cash flows or operating results. However, if we must make changes to our properties on a more accelerated basis than we anticipate, our cash flows, operating results and sale prices could suffer.

ADDITIONAL REGULATIONS APPLICABLE TO OUR PROPERTIES MAY REQUIRE US TO MAKE SUBSTANTIAL EXPENDITURES TO ENSURE COMPLIANCE, WHICH COULD ADVERSELY AFFECT OUR CASH FLOWS, OPERATING RESULTS AND SALE PRICES.

Our properties are subject to various federal, state and local regulatory requirements such as local building codes and other similar regulations. If we fail to comply with these requirements, governmental authorities may impose fines on us or private litigants may be awarded damages against us.

We believe that our properties are currently in substantial compliance with all applicable regulatory requirements. New regulations or changes in existing regulations applicable to our properties, however, may require us to make substantial expenditures to ensure regulatory compliance, which would adversely affect our cash flows, operating results and sale prices.

OUR INSURANCE MAY NOT COVER SOME POTENTIAL LOSSES.

We carry comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. Some types of risks, generally of a catastrophic nature such as from war or environmental contamination, however, are either uninsurable or not economically insurable.

We currently have insurance for earthquake risks, subject to certain policy limits and deductibles, and will continue to carry such insurance if it is economical to do so. We cannot assure you that earthquakes may not seriously damage our properties, one of which is located in the State of Washington, historically an earthquake-prone area, and that the recoverable amount of insurance proceeds will be sufficient to fully cover reconstruction costs and losses suffered. Should an uninsured or underinsured loss occur, we could lose our investment in, and



anticipated income and cash flows from our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

Additionally, although we generally obtain owner's title insurance policies with respect to our properties, the amount of coverage under such policies may be less than the full value of the remaining properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated income and cash flows from, that property.

THE TRANSFER OF OUR REMAINING ASSETS TO A LIQUIDATING TRUST WILL AFFECT THE LIQUIDITY OF YOUR OWNERSHIP INTERESTS, AND THE ANTICIPATION OF THAT TRANSFER MAY REDUCE THE PRICE OF OUR COMMON STOCK.

The Corporation currently expects that not later than October 29, 2004 the Corporation will transfer and assign to a liquidating trust as designated by the Board of Directors all of its then remaining assets (which may include direct or indirect interests in real property) and liabilities, although there can be no assurance in this regard. After such a transfer to a liquidating trust, which could be as soon as April 1, 2004, all stock certificates that represent outstanding shares of our common stock will be automatically deemed to evidence ownership of beneficial interests in the liquidating trust. Beneficial interests in the liquidating trust will be non-certificated and non-transferable, except by will, intestate succession or operation of law. As a result, the beneficial interests in the liquidating trust will not be listed on any securities exchange or quoted on any automated quotation system of a registered securities association. In anticipation of such a transfer and the resulting illiquidity of the beneficial interests, some of our stockholders may desire to sell their shares of common stock. In such case, if the number of shares of our common stock for which sell orders are placed is high relative to the demand for such shares, there could be a material adverse affect on the price of the Corporation's common stock.

OUR STOCKHOLDERS WILL FACE REDUCED LIQUIDITY AS OUR ASSETS ARE SOLD AND THE PROCEEDS ARE PAID TO THEM AS DIVIDENDS.

As our assets are sold and the proceeds are paid to our stockholders as dividends, the market capitalization, "public float" and the market interest in our common stock by the investment community will diminish, thereby reducing the market price, the market demand and liquidity for shares of the common stock. Depending on the length of the liquidation process and our market capitalization, the American Stock Exchange may cause the common stock to be delisted at a later stage of the liquidation process.

WHERE CAN YOU FIND MORE INFORMATION ABOUT US?

The Corporation is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which means that the Corporation files periodic reports, including reports on Forms 10-K and 10-Q, and other information with the Securities and Exchange Commission ("SEC"). As well, the Corporation distributes proxy statements annually and files those reports with the SEC. You can read and copy these reports, statements and other information at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, NW, Washington, D.C. 20549, as well as the regional offices at the Woolworth Building, 233 Broadway Ave., New York, New York 10279 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. You may obtain copies of this material for a fee by writing to the SEC's Public Reference Section of the SEC at 450 Fifth Street, NW, Washington, D.C. 20549. You may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also access some of this information electronically by means of the SEC's website on the Internet at http://www.sec.gov, which contains reports, proxy and information statements and other information that the Corporation has filed electronically with the SEC.



ITEM 2. PROPERTIES

PROPERTY PORTFOLIO

In addition to the Corporation's interest in the Accor S.A. Properties, as described below in "Item 1. Business - Property Sales/Acquisitions - The Accotel Transaction", the Corporation owned or held a Joint Venture interest in the following properties as of December 31, 2003:

(1) COMMERCE PLAZA I

On April 23, 1987, the Predecessor Partnership purchased a fee simple interest in Commerce Plaza I located in Richmond, Virginia. Commerce Plaza I is an office building located in the Commerce Center Business Park, an office park situated at the intersection of I-64, Glenside Drive and Broad Street in Henrico County, northwest of Richmond, Virginia. This area, referred to as the West End, contains established residential neighborhoods as well as corporate headquarters and many of Richmond's suburban office parks. Commerce Plaza I's building is constructed of steel with red brick facade and insulated bronze tinted glass. It is situated on a site of approximately 4.2 acres, has a net rentable area of approximately 85,000 square feet and provides parking for approximately 300 cars.

(2) MATTHEWS TOWNSHIP FESTIVAL

On February 23, 1988, the Predecessor Partnership purchased a fee simple interest in Matthews Township Festival ("Matthews Festival"), a community shopping center in suburban Charlotte, North Carolina in the town of Matthews. Completed in November 1987, Matthews Festival contains 127,403 square feet of rentable space. During 1990 the A&P anchor store closed and the center has suffered a lower level of consumer traffic, sales and occupancy as a result. A&P remains obligated pursuant to the terms of its lease until 2007 and continues to pay rent. In October 2000, a tenant leasing approximately 29% of the property and operating a movie theater defaulted on its lease obligations as a result of its bankruptcy filing. The tenant has rejected the lease in its bankruptcy and, accordingly, the space is now vacant.

Matthews Festival is part of a larger overall retail complex containing approximately 55 acres and zoned for 550,000 square feet of retail space. During 1996, construction of Phase II of the overall complex and a concept restaurant on an out-parcel in front of the center were completed by the original developer.

(3) SEATTLE TOWER

On December 16, 1986, a joint venture (the "Seattle Landmark Joint Venture") comprised of the Predecessor Partnership and Intergrated Resources High Equity Partners - Series 85 ("HEP-85") acquired a fee simple interest in Seattle Tower, a commercial office building located in downtown Seattle ("Seattle Tower"). The Operating Partnership and Shelbourne Properties I, L.P. each have a 50% interest in the Seattle Landmark Joint Venture.

Seattle Tower is located at Third Avenue and University Street on the eastern shore of Puget Sound in the financial and retail core of the Seattle central business district. Seattle Tower, built in 1928, is a 27-story commercial building containing approximately 167,000 rentable square feet, including almost 10,000 square feet of retail space and approximately 2,211 square feet of storage space. The building also contains a 55-car garage. Seattle Tower, formerly Northern Life Tower, represented the first appearance in Seattle of a major building in the Art Deco style. It was accepted into the National Register of Historic Places in 1975. There are approximately seventy tenants occupying the building. Leasing efforts are focused on consolidating space to create single floor tenants.

In February 2001, the Seattle area was hit with an earthquake. Seattle Tower suffered some damage in the earthquake. Repairs have been undertaken and completed on all tenant spaces, with approximately 75% of the repairs completed overall. The costs of the repairs are fully covered by insurance, subject to a $25,000 deductible which has been satisfied.



We believe that Seattle Tower's primary direct competition comes from three office buildings of similar size or age in the immediate vicinity of Seattle Tower, which buildings have current occupancy rates which are comparable to Seattle Tower's.

OCCUPANCY

The following table lists the occupancy rates of our properties at the end of each of the last three years.

OCCUPANCY

| PROPERTY | 12/31/2003 | 12/31/2002 |
|---|---|---|
| Commerce Plaza I | 100% | 74% |
| Matthews Township Festival | 66% | 68% |

| | | |
|---|---|---|
| Seattle Tower Office Building | 87% | 80% |

The following table contains information for each tenant that occupies ten percent or more of the rentable square footage of any of our properties.

| PROPERTY | NAME OF TENANT | PRINCIPAL BUSINESS OF TENANT | SQUARE FEET LEASED BY TENANT | ANNUAL RENT |
|---|---|---|---|---|
| COMMERCE PLAZA | Branch Banking & Trust | Banking | 9,416 | $164,780 |
| | Inversys Controls Co. | Appliance control manufacturer | 18,120 | $322,340 |
| | Sinclair Telecable/ Radio One | Communications | 12,931 | $169,599 |
| | National Clinical Research | Medical Clinic | 9,645 | $180,289 |
| MATTHEWS FESTIVAL | A&P (1) | Grocery retailer | 40,526 | $364,734 |
| SEATTLE TOWER | Electric Lightwave | Telephone switching company | 23,598 | $510,545 |

(1) Tenant has vacated property but continues to pay rent pursuant to terms of the lease.

CAPITAL IMPROVEMENTS

See "Item 7. Management's Discussion and Analysis and Results of Operations."



ITEM 3. LEGAL PROCEEDINGS

Delaware Plaintiffs Litigation, Court of Chancery of the State of Delaware (C.A. No. 19442- NC, and C.A. No. 19611).

On February 26 and March 6, 2002, respectively, plaintiffs Thomas Hudson and Ruth Grening filed individual and derivative action lawsuits, which were subsequently consolidated, on behalf of the Companies against NorthStar

Capital Investment Corp. ("NorthStar"), several of its affiliates, and the members of the boards of directors of the Companies as of February 13, 2002 in the Court of Chancery of the State of Delaware. The two actions challenged the propriety of transactions consummated on February 14, 2002, by which the Companies and their respective operating partnerships agreed to purchase from NorthStar approximately 30% of the then outstanding shares of each of the Companies as well as the right to terminate certain management services agreements.

On May 7, 2002, plaintiffs Grening and Hudson jointly filed a separate individual and class action in Delaware Chancery Court alleging that the Companies and the members of the Boards at that time had violated 8 Del. C. (ss.) 211 by failing to call and hold annual meetings of the stockholders within 13 months of the incorporation of the Companies, and had breached their fiduciary duties and the provisions of the Companies' Amended and Restated Certificates of Incorporation, by, inter alia, reducing and reorganizing the Companies' boards and issuing allegedly false and/or misleading statements and omissions of material facts in press releases and the 2001 Annual Reports filed with the Securities and Exchange Commission by each of the Companies. On May 29, 2002, the Court consolidated the claims pursuant to 8 Del. C. (ss.) 211 for purposes of discovery and trial with similar claims in a lawsuit brought in the same forum by HX Investors, L.P. ("HX Investors") and other stockholders against the Companies.

The Companies vigorously defended all of the litigation, and, on July 1, 2002, HX Investors, the additional stockholders, the Companies, the additional defendants, and Ms. Grening entered into several related agreements pursuant to which the aforementioned actions by plaintiffs Grening, Hudson, and HX Investors were settled, subject, with respect to the class and derivative actions, to the approval of the Court. In connection with the settlement, among other things, NorthStar agreed to contribute up to $1 million for the payment of the class and derivative plaintiffs' attorneys' fees, expenses, and incentive fees as approved by the Court.

The settlement with Ms. Grening was memorialized by letter agreement dated July 1, 2002, setting forth the agreement in principle. By letter agreement dated October 28, 2002, Plaintiff Thomas Hudson joined in the agreement in principle. On August 28, 2003, the settlement was approved by the Court and the case was dismissed.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.



PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET FOR OUR COMMON STOCK

In May 2001, our Common Stock began trading on the American Stock Exchange under the symbol "HXE". Prior to that date, there was no established trading market for interests in the Predecessor Partnership.

The high and low sales prices per share of Common Stock are set forth below for the periods indicated.

| QUARTER ENDED | HIGH | |
|---|---|---|
| March 31, 2002 | $52.80 | $3 |
| June 30, 2002 | $54.25 | $5 |
| September 30, 2002 | $72.00 | $5 |
| December 31, 2002 | $64.50 | $5 |
| March 31, 2003 | $67.00 | $2 |
| June 30, 2003 | $38.75 | $2 |
| September 30, 2003 | $30.00 | $1 |
| December 31, 2003 | $20.88 | $1 |

On March 24, 2004, the closing sale price of the Common Stock as reported by the American Stock Exchange was $18.80. The Corporation had approximately 2,475 holders of record of Common Stock as of March 24, 2004.

The Corporation has authorized 2,500,000 shares of Common Stock, issued 1,237,916 shares with 894,792 shares outstanding at March 24, 2004.

DIVIDENDS

Holders of Common Stock will be entitled to receive dividends if, as and when the Board of Directors authorizes and declares dividends. In connection with the settlement of the lawsuit brought by HX Investors L.P., the Operating Partnership issued to HX Investors Class B units which entitle HX Investors to receive 15% of all gross proceeds after payment to stockholders of the approximately $66.25 per share plus interest compounded quarterly at 6% per annum from August 19, 2002 ("Priority Return"). After giving effect to dividends paid from August 19, 2002 through March 24, 2004, the remaining unpaid per share Priority Return is $3.21.

The following table sets forth the dividends paid or declared by the Corporation on its Common Stock for the previous two years:



| PERIOD ENDED | STOCKHOLDER RECORD DATE |
|---|---|

| | |
|---|---|
| March 31, 2002 | - |
| June 30, 2002 | - |
| September 30, 2002 | - |
| December 31, 2002 | November 15, 2002 |
| March 31, 2003 | January 23, 2003 |
| March 31, 2003 | March 10, 2003 |
| June 30, 2003 | June 30, 2003 |
| September 30, 2003 | - |
| December 31, 2003 | - |

RECENT SALES OF UNREGISTERED SECURITIES

There were no securities sold by us in 2003 that were not registered under the Securities Act.



ITEM 6. SELECTED FINANCIAL DATA

The following financial data are derived from our audited consolidated financial statements. The financial data set forth below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" and the notes thereto appearing elsewhere in this Form 10-K.

| | Year Ended December 31, Liquidation Basis 2003 | Period 10/30/02 to 12/31/02 Liquidation Basis | Period 1/1/02 to 10/29/02 Going Concern | Y 2001 |
|---|---|---|---|---|
| Total Revenue (6) | $2,926,212(4) | $837,495(4) | $3,700,417(4)(6) | $15,916,861( |
| Net Income (Loss) Available for Common Stockholders | 38,692,911 | 7,177,799 | (23,815,147) | 6,850,151(2 |
| Net Income (Loss) per Common Share | 43.24 | 8.02 (8) | (25.19) (7) | 5.53 |
| Dividends per Common | | | | |

| | | | | |
|---|---|---|---|---|
| Share (1) | 51.25 | 14.00 | - | 2.11 (3) |
| Total Assets | $27,087,918 | $90,672,934(5) | $60,317,641 | $70,681,975 |

(1) All dividends are in excess of accumulated undistributed net income and therefore represent a return of capital to investors on a generally accepted accounting principles basis prior to conversion to a REIT.

(2) Total revenues and net income for the year ended December 31, 2001 includes a $3,207,975 gain or $2.59 per share, from the sale of a property, Commonwealth Industrial Park.

(3) Dividends made from and after December 21, 2001 are based on the total shares issued and outstanding.

(4) Reflects the January 1, 2002 conversion to the equity method of accounting, as required under generally acceptable accounting principles due to the incurrence of debt. Prior to the conversion, the Corporation reported its investments in joint ventures using the pro rata consolidation method of accounting, under which revenues and expenses attributable to the joint ventures are presented on a pro rata basis in accordance with the Corporation's percentage of ownership together with the revenues and expenses of the Corporation's wholly-owned properties. Under the equity method of accounting, the net income attributable to the Corporation's investment in the joint ventures is presented as a single item on the statement of operations. If the change to the equity method of accounting had been made on January 1, 2001, revenues reported for 2001 have been reduced by $6,803,300. Total net income remains unchanged.

(5) Reflects the conversion to the liquidation basis of accounting under which real estate is reported to its estimated net realizable value. Prior to the conversion to the liquidation basis of accounting, real estate was reported at its historical cost, less accumulated depreciation and adjustments for impairment.

(6) Total revenue for 2002 includes revenue from discontinued operations.

(7) Net Income (Loss) per Common Share was calculated using a weighted average shares outstanding of 945,583.



(8) Net Income (Loss) per Common Share was calculated using a weighted average of shares outstanding of 894,792.

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

The following should be read in conjunction with "Forward-Looking Statements" and our combined consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

OVERVIEW

Shelbourne Properties II, Inc. was formerly a Delaware limited partnership, High Equity Partners L.P. - Series 86 ("HEP-86"), which was merged on April 17, 2001 with and into Shelbourne Properties II L.P., a Delaware limited partnership (the "Operating Partnership"). The Corporation holds its investment in its properties through the Operating Partnership in which it held a 99% direct interest and a 1% indirect interest at December 31, 2003. The 1% is held indirectly through the general partner of the Operating Partnership, Shelbourne Properties II GP LLC (the "General Partner"), of which the Corporation is the sole member.

On February 14, 2002, the Corporation repurchased the shares of a major stockholder, Presidio Capital Investment Company LLC ("PCIC"), (the "Transaction"). As part of that repurchase, Shelbourne Management LLC, a wholly-owned subsidiary of PCIC, contributed to the Operating Partnership, the advisory agreement between the Corporation, the Operating Partnership, and Shelbourne Management LLC, dated as of April 17, 2001 (the "Advisory Agreement"), pursuant to which Shelbourne Management LLC had provided financial and investment advisory services to the Corporation and the Operating Partnership. As consideration for the purchase of the shares and the contribution of the Advisory Agreement, the Corporation paid $17,866,603 in cash and the Operating Partnership issued a note in the amount of $22,034,250 and issued 1,015.148 5% Class A Preferred Partnership Units (with a liquidation preference of $1,000 per unit) to Shelbourne Management LLC. As a result, until those preferred units are redeemed, Shelbourne Management LLC is entitled to receive quarterly distributions from the Operating Partnership at a rate of 5% per annum of the aggregate liquidation preference of its preferred units. The agreement governing the repurchase also provided for pre-payment penalties in the event that the Operating Partnership redeems these preferred units prior to February 14, 2007. As a result of a transaction that was consummated in January 2003, the 5% Class A Preferred Partnership Units were reclassified as Class A Partnership Units and modified to eliminate the liquidation preference and to significantly limit the events that could create a pre-payment penalty. The Class A Partnership Units are still entitled to receive quarterly distributions at a rate of 5% per annum.

During July and August 2002, the Corporation entered into a settlement agreement with HX Investors, L.P. ("HX Investors"), a stockholder in the Corporation, with respect to a lawsuit brought by HX Investors and others against the Companies. In connection with this settlement:

o HX Investors made a tender offer for up to 30% of the outstanding shares of Common Stock. Upon consummation of the offer, HX Investors acquired 268,444 Common Shares. As a result of the tender offer and subsequent market acquisitions, HX Investors holds 41.46% of the outstanding Common Stock.

- o On August 19, 2002, the existing Board of Directors and executive officer of the Corporation resigned, and the Board was reconstituted to consist of six members, four of whom are independent directors. In addition, new executive officers were appointed.

- o HX Investors was issued by the Operating Partnership Class B Units that entitle the holder thereof to receive 15% of the Operating Partnership's gross proceeds after the payment of a priority return of approximately $66.25 (plus interest at 6% per annum, subject to certain increases) per share to the stockholders of the Corporation.

- o A Plan of Liquidation of the Corporation was adopted by the prior Board of Directors.

On October 29, 2002, the stockholders of the Corporation approved the Plan of Liquidation. As a result, the Corporation adopted liquidation accounting and the Operating Partnership has been seeking, and will seek, to sell its remaining properties at such time as it is believed that the sale price for such property can be maximized. Since the adoption of the Plan of Liquidation, the Corporation (a) has sold its properties located in Raleigh, North



Carolina; Hillard, Ohio; New York, New York; Melrose Park, Illinois; San Diego, California; Grove City, Ohio; and Orange, Ohio and (b) has paid dividends of $65.25 per share. Pursuant to the Plan of Liquidation, if all of the assets of the Corporation are not sold prior to October 29, 2004, the remaining assets will be placed in a liquidating trust and the stockholders of the Corporation will receive a beneficial interest in such trust in total redemption for their shares in the Corporation.

The Corporation has operated with the intention of qualifying as a real estate investment trust for U.S. Federal Income Tax purposes ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986 as amended. Under those sections, a REIT which pays at least 90% of its ordinary taxable income as a dividend to its stockholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its stockholders.

We have adopted a plan of liquidation that requires us to liquidate all of our assets and liabilities by October 29, 2004. Dividends paid during our liquidation generally will not be taxable to the stockholder until the dividends paid exceed the adjusted tax basis in the stockholder's shares, and then will be taxable as long-term capital gain assuming the shares as capital assets have been held for more than 12 months when the stockholder receives the dividend as a result of the adoption of the plan of liquidation. As a result of the sale of substantially all of our assets and in light of the costs associated with maintaining a public company, it is expected that our remaining assets will be transferred to a liquidating trust as early as April 2004 and in lieu of owning shares, each stockholder will own a beneficial interest in the liquidating trust of an equivalent percentage. In this regard, on March 17, 2004, the holder of the Class A Units agreed to retain its beneficial ownership of the Accor S.A. Properties and relinquish its right to require the acquisition of other properties, thereby enabling the Corporation to set up liquidating trusts to complete its liquidation as early as April 16, 2004. In consideration of the Class A Unitholder electing to take title to the Accor S.A. Properties earlier than required, the Corporation waived its right to require the Class A Unitholder to reimburse it for up to $75,000 of costs associated with the acquisition of the Accor S.A. Properties and made a payment to the Class A Unitholder of approximately $41,667. Accordingly, at such time as the assets of the Corporation are distributed to a liquidating trust, which is presently expected to be April 16, 2004, the transferability of interests in the trust will be significantly restricted as compared to the shares in the Corporation, and the stockholders, as holders of beneficial interests, will be required to include in their own income their pro rata share of the trust's taxable income whether or not that amount is actually distributed by the trust in that year. Further, for federal income tax purposes, on April 16, 2004, each stockholder of the Corporation on the Record Date will be deemed to have received a pro rata share of the assets of the Corporation to be transferred to the Liquidating Trust, reduced by such stockholder's pro rata share of the liabilities of the Corporation assumed by the Liquidating Trust. Based on the estimates used by management to determine net realizable value of the Corporation's assets at December 31, 2003, the estimated net realizable value of the Corporation is approximately $17.4 million or $17.04 per common share. The foregoing estimate is based on the carrying values of the current assets of the Corporation as well as the current account payables of the Corporation and estimates as to future costs associated with transferring the assets to the Liquidating Trust, maintaining the Liquidating Trust and insurance coverage. Accordingly, the ultimate value realized may be significantly less or more than the estimated amount.

## CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

## ADJUSTMENT TO LIQUIDATION BASIS OF ACCOUNTING

On October 30, 2002, in accordance with the liquidation basis of accounting, assets were adjusted to estimated net realizable value and liabilities were adjusted to estimated settlement amounts, including estimated costs associated with carrying out the liquidation. Since the sale of the properties located in Melrose Park, Illinois; Hilliard, Ohio; New York, New York; San Diego, California; Grove City, Ohio; and Orange, Ohio, the valuation of



investments in joint ventures and real estate held for sale have been adjusted to reflect the remaining estimated costs of carrying out the liquidation as of December 31, 2003. Further adjustments were included in the December 31, 2003

Consolidated Statement of Changes in Net Assets. The valuation is based on current contracts, estimates as determined by independent appraisals or other indications of sales value, net of estimated selling costs and capital expenditures anticipated during the liquidation period. The valuations of other assets and liabilities are based on management's estimates as of December 31, 2003. During the year ended December 31, 2003, in addition to decreases due to the result of sales, the deferred gain was decreased by $968,196 to reflect revisions to the carrying value of real estate and joint ventures. The actual values realized for assets and settlement of liabilities may differ materially from amounts estimated.

The anticipated gains which include any distributions payable to the Class B Unitholder associated with the adjustment in value of these real estate properties have been deferred until such time as a sale occurs. During the year ended December 31, 2003, the Corporation recognized actual gains of $846,203 on the sale of real estate and $37,125,122 included in equity income from joint ventures attributable to real estate sales. As a result of these sales, the Corporation's deferred gain at December 31, 2002 was reduced by $37,592,575 to $5,286,904.

## RESERVE FOR ESTIMATED COSTS DURING THE PERIOD OF LIQUIDATION

Under liquidation accounting, the Corporation is required to estimate and accrue the non-operating costs associated with executing the Plan of Liquidation. These amounts can vary significantly due to, among other things, the timing and realized proceeds from property sales, the costs of retaining agents and trustees to oversee the liquidation, including the costs of insurance, the timing and amounts associated with discharging known and contingent liabilities and the non-operating costs associated with cessation of the Corporation's operations. These non-operating costs are estimates and are expected to be paid out over the liquidation period. Such costs do not include costs incurred in connection with ordinary operations.

The reserve for additional costs associated with liquidation was reduced from $1,600,000 at December 31, 2002 to $1,500,000 at December 31, 2003. The decrease is the result of (a) professional costs associated with obtaining the Fleet Loan of $504,926, (b) $2,067 incurred in connection with the payoff of the Fleet Loan, and (c) tax planning costs of $16,667 paid to an affiliate of Presidio Capital Investment Company, LLC in connection with the Accotel transaction. These expenditures were partially offset by an increase in management's estimate of costs associated with executing the Plan of Liquidation of $423,660.

## RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections," which updates, clarifies and simplifies existing accounting pronouncements, which will be effective for fiscal years beginning after May 15, 2002. This statement had no effect on the Corporation's financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The disclosure provisions of this Interpretation are effective for the Corporation's December 31, 2002 financial statements. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. This Interpretation had no material effect on the Corporation's financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement had no material effect on the Corporation's financial statements.

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In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The statement improves the accounting for certain financial instruments that under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities in statements of financial position. SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash and other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under this statement is obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominately to a variable such as a market index, or varies inversely with the value of the issuer's shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. In addition to its requirements for the classification and measurement of financial instruments in its scope, SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, all of whose shares are mandatorily redeemable. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This statement had no material effect on the Corporation's financial statements.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003). Consolidation of Variable Interest Entities ("VIEs"), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. The Corporation will be required to adopt FIN 46R in the first fiscal period ending after March 15, 2004. Upon adoption of FIN 46R, the assets, liabilities and noncontrolling interest of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The Corporation does not expect that this will have a material impact on the Corporation's consolidated financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

The Corporation uses its working capital reserves and any cash from operations as its primary source of liquidity. On October 29, 2002, the Corporation's stockholders approved the Plan of Liquidation. Accordingly, the Corporation began to sell its properties.

The Company had $1,242,698 in cash and cash equivalents at December 31, 2003. Cash and cash equivalents are temporarily invested in short-term instruments. The Company's level of liquidity based upon cash and cash equivalents decreased by $9,655,797 during the year ended December 31, 2003. As discussed further below, the decrease resulted from $62,968,194 of net cash used in financing activities which more than offset $52,116,293 of net cash provided by operating activities and $1,196,104 of net cash provided by investing activities.

In addition to the cash and cash equivalents reported at December 31, 2003, Seattle Landmark Joint Venture, in which the Corporation holds a 50% interest, held cash at December 31, 2003 of which the Corporation's allocable share was approximately $304,148.

During 2003, the Corporation's primary sources of funds were rents collected from tenants, distributions from its joint venture investments and proceeds from property sales. Rents collected from tenants for the year ended December 31, 2003 amounted to $2,459,531 as compared to $4,474,295 for the year ended December 31, 2002. The decrease is due to the sale of Sutton Square in December 2002 and Melrose Crossing I on February 28, 2003. Distributions in excess of earnings from joint venture investments increased by $8,230,635 to $15,209,006 for the year ended December 31, 2003 from $6,978,371 for the year ended December 31, 2002. The reason for the increase is due to the net cash received from the sale of properties owned by 568 Broadway Joint Venture, Century Park I Joint Venture and Tri-Columbus Associates during 2003.

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Cash provided by investing activities were the result of the sale of Melrose Crossing I which generated proceeds of $3,125,632 which was partially offset by the investment in the Accotel transaction of $1,079,675 and by improvements to real estate at Commerce Plaza of $848,053 and $1,800 at Melrose Crossing I prior to its sale.

Cash used in financing activities consisted of the dividends paid to stockholders of ($45,858,090), distributions made to Class A Unitholder ($51,462), the satisfaction of the Credit Facility ($23,779,343) and principal payments on the Fleet Loan ($22,081,542). These expenditures were partially offset by the Fleet Loan proceeds in the amount of $22,081,542 and the proceeds from the related party loans payable of $6,720,701.

## CAPITAL IMPROVEMENTS AND CAPITALIZED TENANT PROCUREMENT COSTS

The following table sets forth, for each of the last three fiscal years, the Corporation's and the Predecessor Partnership's expenditures at each of its wholly owned properties for capital improvements and capitalized tenant procurement costs:

| | YEARS ENDED DECEMBER | |
|---|---|---|
| PROPERTY | 2003 | 2002 |
| Melrose Crossing (2) | $ 1,800 | $199,591 |
| Matthews Festival (3) | - | 189,942 |
| Sutton Square (1) | - | 16,346 |
| Melrose Out Parcel (2) | - | - |
| Commerce Plaza I | 848,053 | 404,694 |
| TOTALS: | $849,853 | $810,573 |

(1) Sutton Square Shopping Center was sold on December 20, 2002.

(2) Melrose Crossing and the Melrose Out Parcel were sold on February 28, 2003.

(3) Matthews Festival improvements have been expensed as the property was determined to be at its net realizable value at December 31, 2002.

## RESULTS OF OPERATIONS

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2003 TO THE YEAR ENDED DECEMBER 31, 2002

Net income

The Corporation's net income available for common stockholders increased by $55,330,259 to $38,692,911 for the year ended December 31, 2003 from a net loss of $16,637,348 for the year ended December 31, 2002. The increase in net income available for common stockholders was due to a decrease in expenses as well as increases in equity income from joint ventures, which were partially offset by a decrease in rental revenue, gain on sale of real



estate held for sale and a decrease in interest expense. The Corporation's net loss before equity income from joint ventures, interest and other income and net gain on sale of real estate was $364,167 for the year ended December 31, 2003 as compared to a net loss of $26,260,396 for the year ended December 31, 2002, which was primarily attributable to significant costs incurred during 2002 in connection with the Transaction, including the purchase of the Advisory Agreement.

The net operating loss attributable to Melrose Crossing I, the Corporation's property located in Melrose Park, Illinois, for the period ended October 29, 2002 is classified as discontinued operations due to the property being under contract for sale prior to the adoption of the Plan of Liquidation. Loss from discontinued operations ceased on October 29, 2002 due to the stockholders vote to liquidate the portfolio. Under liquidation accounting, all property is considered real estate held for sale and discontinued operations are no longer applicable.

Rental Revenue

Rental revenues decreased by $1,800,514, or approximately 41%, to $2,571,747 for the year ended December 31, 2003 from $4,372,261 for the year ended December 31, 2002 due to the sale of Sutton Square in December 2002. Income for the year ended December 31, 2003 included $122,453 related to Sutton Square common area maintenance recoveries from tenants and percentage rent, compared to Sutton Square's full operations during the year ended December 31, 2002 which generated $1,759,486 in revenues. Matthews Festival and Commerce Plaza combined rental revenue decreased by $133,527 which was partially offset by Melrose Crossing I's 2003 rental revenue prior to its sale of $86,153.

Costs and Expenses

Costs and expenses for the year ended December 31, 2003 were $2,935,914, representing a decrease of $27,696,743 from the same period in 2002. The decrease is due principally to expenses incurred in 2002 of $23,049,398 associated with the purchase of the Advisory Agreement that was consummated on February 14, 2002. Excluding expenses associated with the purchase of the Advisory Agreement, expenses for the year ended December 31, 2002 were $7,583,259. Therefore, without giving effect to the costs incurred in 2002 for the purchase of the Advisory Agreement, expenses decreased by $4,647,345 for year ended December 31, 2003 compared with the same period in 2002. The decrease is primarily due to reduced administrative expenses, the cessation of depreciation and amortization and the reduction of the asset management fees to $200,000 per year partially offset by an increase in operating expenses.

Operating expenses increased by $272,925, primarily due the expensing of improvements made at Matthews Festival. These improvements were expensed instead of capitalized because the incurrence of these costs did not increase the estimated net realizable value of the property. The increase was partially offset by the sale of Sutton Square in December 2002, resulting in the Company incurring no operating expenses at the property.

Pursuant to the Plan of Liquidation which was adopted October 29, 2002, depreciation and amortization expenses ceased to be recognized as of that date. Therefore, the Corporation incurred no depreciation and amortization for the year ended December 31, 2003 as compared to $1,249,356 for the period ended October 29, 2002.

Partnership asset management fees and transition management fees decreased to $200,000 for the year ended December 31, 2003 from $415,832 for the same period in 2002. This decrease was due to the reduction of the fee in connection with the Transaction from a fee based on 1.25% of gross asset value of the Corporation to set a fee of $27,778 per month through September 30, 2002, which was then further reduced to $16,667 per month for the balance of 2002. Shelbourne Management was paid $157,582 in partnership asset management fees prior to February 14, 2002, $208,250 was paid to PCIC for transition fees from February 15, 2002 through September 30, 2002 and Kestrel Management was paid $50,000 for its services from October 1, 2002 through December 31, 2002.

Administrative costs decreased to $1,086,591 for the year ended December 31, 2003 from $4,486,914 for the same period in 2002. This reduction is due to certain costs incurred in 2002 in connection with the Transaction and legal, professional and consulting fees incurred in 2002. Property management fees decreased to $73,240 from

$127,999 for the year ending December 31, 2003 and 2002, respectively. The decrease is due to the sale of Sutton Square in December 2002 and Melrose Crossing I in February 2003.

Gain on Sale of Real Estate

The gain on sale of $846,203 for the year ended December 31, 2003 was due to the sale of Melrose Crossing I during the year ended December 31, 2003 as compared to $6,760,285 for the year ended December 31, 2002 which was due to the sale of Sutton Square in that year.

Non-Operating Income and Expenses

Equity income from investments in joint ventures increased by $34,391,808 to $38,502,411 for the year ended December 31, 2003 as compared to $4,110,603 for the year ended December 31, 2002. This is primarily due to 568 Broadway Joint Venture, in which the Corporation indirectly held a 38.925% interest, selling its property located in New York, New York on February 28, 2003. The joint venture recognized a gain on sale for financial reporting purposes of $67,746,480 of which $26,702,093 was allocated to the Corporation. The increase in income from investments in joint ventures is also attributable to the Corporation's joint venture investment in Century Park I Joint Venture, in which the Corporation held a 50% indirect interest, which sold its property located in San Diego, CA on April 29, 2003. The joint venture recognized a gain on sale for financial reporting purposes of $20,394,138 of which the $10,261,579 was allocated to the Corporation. In addition, Tri-Columbus Associates sold all three of its properties during 2003 and recognized a gain on the sales for financial reporting purposes of $161,450.

Excluding the gain on sale, the Corporation experienced a decrease in equity income from 568 Broadway Joint Venture, Century Park I Joint Venture and Tri-Columbus Associates for the year ended December 31, 2003 as compared to the year ended December 31, 2002 of $2,319,631, $403,823 and $19,341, respectively, due to the sales of the properties.

The Corporation's joint venture investment in Seattle Landmark Joint Venture, in which the Corporation owns a 50% indirect interest, experienced an increase in equity income of $9,481. This increase is the result of the cessation of depreciation and amortization along with the decreases in all expenses that were offset by the decrease in revenue in 2003.

During 2003, interest expense amounted to $594,539 as compared to $1,044,841 during the year 2002. During 2003, interest expense primarily consisted of $122,928 paid in connection with the Credit Facility and $456,419 incurred in connection with the Fleet Loan. In addition, the Corporation incurred interest expense on its loans payable to Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. These loans payable are the result of payments made on behalf of the Corporation by Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc., which were subject to the terms of the Indemnity, Contribution and Subrogation Agreements. The interest accrued to Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. during 2003 is $3,050 and $12,142, respectively. During 2002, interest expense consisted of $215,768 related to the notes issued to Shelbourne Management in connection with the purchase of the Advisory Agreement and interest of $829,073 in connection with the Credit Facility.

Other income increased for the year ended December 31, 2003 as compared to the year ended December 31, 2002 by $302,950 to $303,499 from $549. This is attributable to insurance proceeds received during 2003 under the Director's and Officer's insurance policy settlement related to lawsuits in 2002, prior to the adoption of the Plan of Liquidation.

Interest income decreased to $50,966 during the year ended December 31, 2003 from $165,102 during the year ended December 31, 2002 due to lower cash balances being invested and lower yields.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2002 TO THE YEAR ENDED DECEMBER 31, 2001(ON A PRO FORMA-BASIS)

After April 30, 2002, as a result of the Operating Partnership's incurring debt in connection with entering into the Credit Facility, the Corporation is no longer allowed to account for its investments in joint ventures on a pro-rata consolidation basis in accordance with its percentage of ownership but must instead utilize the equity



method of accounting. Further, as a result of the adoption of the Plan of Liquidation, the Corporation adopted liquidation accounting effective October 30, 2002. In order to provide a more meaningful comparison of the results of operations for the years ended December 31, 2002 and 2001, the following comparison compares the results of operations for such periods assuming that the Corporation used the equity method of accounting for the entirety of both periods.

PRO-FORMA INFORMATION

The pro-forma information is provided for the purpose of facilitating the comparison of the 2002 and 2001 results of operations in the review of management's discussion and analysis. Investments in joint ventures were reported in 2001 under the pro-rata consolidated method of accounting which presented the assets and liabilities and revenues and expenses of the joint ventures on a pro-rata basis in accordance with the Corporation's percentage of ownership together with the assets and liabilities and revenues and expenses of the Corporation's wholly-owned properties. In 2002, under the equity method of accounting, the Corporation's share of assets and liabilities and revenues and expenses in joint ventures is presented as a single item on the balance sheet and statement of operations. The Corporation's total equity and net income did not change as a result of the conversion. The following table shows the pro-forma condensed consolidated statement of operations for the year ended December 31, 2001 both reflecting the pro-forma impact had the change to equity accounting for the investments in joint ventures occurred in 2001.

CONDENSED CONSOLIDATED PRO-FORMA STATEMENT OF OPERATIONS

| | FOR THE TWELVE MONTHS ENDED | | |
| --- | --- | --- | --- |
| | AS REPORTED 2001 | DISCONTINUED OPERATIONS | PR ADJ |
| Rental revenue | $ 11,918,573 | $ (349,295) | $ |

| | | | |
|---|---|---|---|
| Costs and expenses | 9,066,710 | (738,150) | |
| Income (loss) before equity income from joint ventures, interest, other income, gain on sale, and discontinued operations | 2,851,863 | 388,855 | |
| Equity income from joint ventures | - | - | |
| Interest income | 709,913 | - | |
| Other income | 80,400 | (50,824) | |
| Gain on sale | 3,207,975 | - | |
| Discontinued operations | - | (338,031) | |
| Net income | $ 6,850,151 | $ - | |

Net Income

The Corporation's net income decreased by $23,487,499 to a net loss of $16,637,348 for the year ended December 31, 2002 from a net income of $6,850,151 for the year ended December 31, 2001. This decrease is primarily attributable to expenses incurred in connection with the Transaction, including the purchase of the Advisory Agreement, legal fees and consulting fees to Lazard Freres & Co. LLC for its advisory and valuation services for the Corporation. In addition, further contributing to the decrease in net income were the legal fees



incurred by the Corporation associated with defending lawsuits brought in connection with the Transaction and a decrease in rental revenue of $393,817. Partially offsetting the increase in costs and expenses was an increase in equity income from the investment in joint ventures of $177,758. Further mitigating the effect of increased expenses was the gain on sale of Sutton Square in 2002 which was $3,552,310 greater than the gain on sale recognized by the sale of Commonwealth Industrial Park in 2001.

Rental Revenues

Rental revenues decreased $393,817, or approximately 8%, to $4,372,261 for the year ended December 31, 2002 from $4,766,078 for the year ended December 31, 2001. The decrease in rental revenue was due to the loss of $934,001 of rental income attributable to Commonwealth Industrial Park which was sold in December 2001. The decrease was offset in part by the aggregate increase in rental revenues of the remaining wholly owned properties of $540,184.

Costs and Expenses

Costs and expenses for the year ended December 31, 2002 amounted to $30,632,657, representing an increase of $25,594,387 from the year ended December 31, 2001. This increase consists of a one-time expense of $23,049,398 for the purchase of the Advisory Agreements. The remaining costs and expenses amounted to $7,583,259 representing an increase of $2,544,989 from $5,038,270 incurred during the year ended December 31, 2001. The increase is primarily due to an increase in administrative expenses incurred in connection with the Transaction, legal, professional and consulting fees.

Operating expenses decreased slightly despite increased insurance costs. The Corporation experienced an increase in depreciation and amortization expense due to real estate improvements and tenant procurement costs of $76,270. Excluding the 2001 depreciation and amortization expense associated with Commonwealth Industrial Park of $170,940, the increase of depreciation and amortization amounted to $247,211. As a result of the vote of the stockholders to liquidate the portfolio and resultant conversion to the liquidation basis of accounting on October 29, 2002, the Corporation will not incur any further depreciation and amortization costs. Property management fees decreased $24,169. However, if the 2001 fees attributable to Commonwealth Industrial Park of $30,584 are deducted, property management fees increased by $6,416 due to increased rental collections from the wholly owned properties in 2002.

Partnership asset management fee decreased by $926,170 for the year ended December 31, 2002 from $1,342,002 for the year ended December 31, 2001. This decrease was due to the reduction of the fee in connection with the Transaction from a fee based on 1.25% of gross asset value of the Corporation to set a fee of $27,778 per month through September 30, 2002, which was then further reduced to $16,667 per month for the balance of 2002. Shelbourne Management was paid $157,582 in partnership asset management fees prior to February 14, 2002, $208,250 was paid to PCIC for transition fees from February 15, 2002 through September 30, 2002 and Kestrel was paid $50,000 for its services from October 1, 2002 through December 31, 2002.

Non-Operating Income and Expenses

Income from the investment in joint ventures increased by $177,758 to $4,110,603 for the year ended December 31, 2002 from $3,932,845 for the same time period in 2001. The increase is due to the increased equity income from 568 Broadway of $354,946 that was offset by an aggregate decrease of equity income from Century Park, Seattle Landmark and Tri-Columbus Associates of $177,188.

Interest expense of $215,768 was paid on the note issued to Shelbourne Management in the Transaction. An additional $829,073 was incurred on the Credit Facility dated May 1, 2002. No interest expense was incurred during 2001 as the Company had no outstanding debt obligations.

Interest income decreased by $133,387, or 45% to $165,102 for the year ended December 31, 2002 as compared to $298,489 for the year ended December 31, 2001 due to significantly lower cash balances invested as well as lower yields on investments.

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Other income decreased for the year ended December 31, 2002 as compared to the year ended December 31, 2001 by $20,516 or 97% to $549 from $21,065 due to the absence, as a result of the conversion of the Predecessor Partnership into a REIT, of transfer fees that were previously generated by the transfer of partnership interests.

The net operating loss attributable to Melrose Crossing I, the Corporation's property located in Melrose Park, Illinois, for the period ended October 29, 2002 is classified as discontinued operations due to the property being under contract for sale prior to the adoption of the Plan of Liquidation. Loss from discontinued operations ceased on October 29, 2002 due to the stockholders vote to liquidate the portfolio. Under liquidation accounting, all property is considered real estate held for sale and discontinued operations are no longer applicable.

INFLATION

Inflation is not expected to have a material impact on the operations of financial position of the Corporation.



ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary market risk the Corporation faces is interest rate sensitivity. The Corporation's related party loan payable interest at a floating rate and therefore is exposed to the risk of interest rate changes. At March 24, 2004, borrowings totaled $6,720,701 interest at a rate of LIBOR plus 2.75%. Based on the balance outstanding on the Loan at March 24, 2004 and the interest rate at that date, a 1% increase in LIBOR would increase the interest expense in 2004 by approximately $756. Conversely, a 1% decrease in LIBOR would decrease interest expense in 2004 by the same amount. The gain or loss the Corporation ultimately realizes with respect to interest rate fluctuations will depend on the actual interest rates during that period. The Corporation does not believe that it has any risk related to derivative financial instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated balance sheets as of December 31, 2003 and 2002, and the related consolidated statements of operations, equity and cash flows for the years ended December 31, 2003, 2002 and 2001, and the notes thereto, and the independent auditors' report thereon and the financial statement schedule are set forth on pages 54 through 77.

ITEM 8A. CONTROLS AND PROCEDURES

As of the end of the period covered by this annual report on Form 10-K, an evaluation was carried out under the supervision and with the participation of the Corporation's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures (as such term is defined in Rule 13a-15 (e) under the Securities Exchange Act of 1934). Based on that evaluation, the Corporation Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation's disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a- 15 (f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION

(a) Directors

The members of the Board at March 1, 2004, and the committees of the Board on which they serve, are identified below.

| Name | Audit Committee | Compensation Committee | Nominating and Governance Co |
|---|---|---|---|
| Michael L. Ashner | | | |
| Arthur Blasberg, Jr.* | X | | X |
| Peter Braverman | | | |
| John Ferrari* | | X | |
| Howard Goldberg* | X | | X |
| Steven Zalkind* | X | X | |

* Independent Trustees as determined by the Nominating and Corporate Governance Committee in accordance with Sections 121A of the listing standards of the American Stock Exchange.

Set forth below is the business experience of, and certain other information regarding, the two director nominees and the Company's Directors.

| Name and year first became a Director of the Company - | Age | Principal Occupation during the past Five Years |
|---|---|---|

CLASS III-TERM EXPIRING AT THE 2004 ANNUAL MEETING OF STOCKHOLDERS

| | | |
|---|---|---|
| John Ferrari 2002 | 50 | Mr. Ferrari has been a Managing Director of Manhat East Suite Hotels, a New York based hotel manageme company that operates ten hotels (2,100 rooms) in York City, since 1996. Mr. Ferrari is responsible the day-to-day operations of the company and for a acquisitions and development of new ventures. |
| Howard Goldberg 2002 | 58 | Mr. Goldberg has been a private investor and has provided consultingservices to start-up companies since 1999. Mr. Goldberg presently serves as a part-time consultant to Laser Lock Technologies, Inc., a company in the security and advertising business, performing duties consistent with that of chief operating officer. From 1994 through 1998, Mr Goldberg served as President and Chief Executive Officer of Player's International, a public company in the gaming business, prior to its being sold to Harrah's Entertainment Inc. In addition, from 1995 2000, Mr. Goldberg served on the board of directors of Imall Inc., a public company that provided on-li shopping and which was ultimately sold to Excite-at-Home. Mr. Goldberg has a law degree from New York University and was previously the managing partner of a large New Jersey law firm. Mr. Goldber is a director and serves on the audit committee of First Union Real Estate Equity and Mortgage Investments ("First Union"), a real estate investme trust. Mr. Goldberg also sits on the Advisory Board of WinWin, a company specializing in foreign charitable lotteries. |



CLASS I-TERM EXPIRING AT THE 2005 ANNUAL MEETING OF STOCKHOLDERS

| | | |
|---|---|---|
| Michael L. Ashner 2001* | 51 | Mr. Ashner has been a director, President, Chairman and Chief Executive Officer of the Company since August 19, 2002. Mr. Ashner also served as a director, President, Chairman and Chief Executive Officer of the Company from February 8, 2001 until August 15, 2002. Mr. Ashner is and has been the Chi Executive Officer of Winthrop Financial Associates, Limited Partnership, since 1996, and the Chief Executive Officer of The Newkirk Group, since 1997, two real estate investment and management companies controlling approximately $3.5 billion of commercia real estate throughout the United States. Effective December 31, 2003, Mr. Ashner was appointed as the Chief Executive Officer and President of First Unio Mr. Ashner currently serves as a director of Greate Bay Hotel and Casino Inc., and NBTY, Inc. |

| | | |
|---|---|---|
| Peter Braverman 2002 | 52 | Mr. Braverman has been a director and Vice Presiden of the Company since August 19, 2002. Mr. Braverman also served as a Vice President of the Company from February 8, 2001 until August 15, 2001. Mr. Braverm is and has been the Executive Vice President of Winthrop Financial Associates, A Limited Partnershi since 1996, and the Executive Vice President of The Newkirk Group, since 1997, two real estate investme and management companies controlling approximately $3.5 billion of commercial real estate throughout t United States. Effective January 8, 2004, Mr. Braverman was appointed as the Executive Vice President First Union. |

CLASS II-TERM EXPIRING AT THE 2006 ANNUAL MEETING OF STOCKHOLDERS

| | | |
|---|---|---|
| Arthur Blasberg, Jr. 2002 | 76 | Mr. Blasberg's activities for the past five years include appointment by the Superior Court in Massachusetts to serve as a receiver of various businesses (including real estate investment companies), as a special master and as the trustee a trust holding undeveloped land and a trust whose main asset was a limited partnership interest in a cogeneration plant. Mr. Blasberg serves as a direct of several private companies and previously served the receiver and liquidating trustee of The March Company, Inc., a real estate investment firm which acted as the general partner and/or limited partner in over 250 limited partnerships. Mr. Blasberg is a attorney admitted to practice in the Commonwealth o Massachusetts and previously served for five years the general counsel's office of the Securities and Exchange Commission. Mr. Blasberg is a director and serves on the audit committee of First Union. |
| Steven Zalkind 2002 | 62 | Mr. Zalkind has been a principal with Resource Investments Limited, L.L.C., a real estate manageme and investment company that owns, operates and manages over 6,000 apartment units and 500,000 squa feet of retail shopping centers, for the past five years. Mr. Zalkind has extensive experience in the operation, management and financing of real estate projects including apartment buildings, shopping centers and office buildings and has been involved real estate acquisitions and resales totaling in excess of $1.5 billion. |

* Mr. Ashner was a director from April 18, 2001 to August 15, 2001 at which time he resigned. He became a director again on August 19, 2002 and has held that position since such date.

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Each of the foregoing directors also serves as directors of Shelbourne Properties II, Inc. and Shelbourne Properties III, Inc.

The Board has determined that Mr. Blasberg is an "audit committee financial expert" as defined in Item 401(h)(2) of Regulation S-K. Although Messrs. Blasberg and Goldberg serve as members of the Audit Committee for each of First Union Real Estate Equity and Mortgage Investments, Shelbourne Properties II, Inc. and Shelbourne Properties III, Inc., the Board has determined that their serving on such committees will not have a negative impact on their ability to serve on the Board's Audit Committee.

(b) Executive Officers

Set forth below is certain information regarding the executive officers and certain other officers of the Company:

| Name | Age | Current Position |
| --- | --- | --- |
| Michael L. Ashner | 51 | President, Chairman and Chief Executive Officer |
| Peter Braverman | 52 | Executive Vice President |
| Carolyn Tiffany | 37 | Chief Financial Officer, Secretary and Treasurer |

Officers serve at the discretion of the Board.

Information regarding Messrs. Ashner and Braverman is included in Item 10(a) above.

Ms. Tiffany has been the Chief Financial Officer and Treasurer of the Company since August 19, 2002. Ms. Tiffany has been with Winthrop Financial Associates since January 1993. Ms. Tiffany was a Vice President in the asset management and investor relations departments of Winthrop Financial Associates from October 1995 to December 1997, at which time she became the Chief Operating Officer of Winthrop Financial Associates. In addition, Ms. Tiffany is the Chief Operating Officer of The Newkirk Group and, since January 8, 2004, the Chief Operating Officer of First Union.

ITEM 11. EXECUTIVE COMPENSATION

For the period from January 1, 2002 to August 19, 2002, the executive officers of the Company during such period were employed by Shelbourne Management LLC. For the period from August 19, 2002 through the end of 2002, the executive officers of the Company were employed by First Winthrop Corporation. The executive officers received no remuneration from the Company but were compensated by Shelbourne Management LLC or First Winthrop Corporation, as the case may be, in their capacities as officers and employees of that company, as shown in the table under "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS."

COMPENSATION OF DIRECTORS

The Company's prior non-employee directors, Messrs. Bebon, Coons and Martin in 2001 and until August 19, 2002 received $6,667 annually for their services as directors. The Company's current non-employee directors, Messrs. Blasberg, Ferrari, Goldberg and Zalkind will receive $10,000 annually for their services as directors and $500 for each applicable committee meeting they attend. Directors of the Company who are also officers of the Company receive no additional compensation for serving on the Board. However, all directors are reimbursed for travel expenses and other out-of-pocket expenses incurred in connection with their service on the Board.

In addition, solely for their services as members of the Special Committee, which was organized to review and evaluate the fairness of the February 2002 repurchase by the Company of the shares held by PCIC, former directors Michael Bebon, Donald W. Coons and Robert Martin received a one-time payment of $20,000.

In consideration of the significant time and efforts that each of the former directors made as a member of the Board prior to August 19, 2002, at which time the Board was reconstituted as described above, including, among other things, evaluating strategic alternatives to enhance stockholder value, arranging for financing and otherwise managing the business of the Company, the prior Board authorized a one-time payment of $75,000 to each of Robert Martin, W. Edward Scheetz and Donald W. Coons.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Michael L. Ashner, a director and the Chief Executive Officer of the Company, also serves as the Chief Executive Officer and director of Kestrel Management Corp., the general partner of Kestrel Management, L.P. ("Kestrel"), the entity that provides asset and property management services to the Company. Similarly, Peter Braverman, a director and Vice President of the Company, also serves as a Vice President of Kestrel Management Corp.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 1, 2004 (except as otherwise indicated) regarding the ownership of Common Stock by (i) each person who is known to the Company to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, (ii) each director and nominee for director, (iii) each executive officer named in the Summary Compensation Table contained herein, and (iv) all current executive officers and directors of the Company as a group. Except as otherwise indicated, each such stockholder has sole voting and investment power with respect to the shares beneficially owned by such stockholder.

| NAME AND ADDRESS OF BENEFICIAL OWNER | POSITION WITH THE COMPANY | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP |
|---|---|---|
| HX Investors, L.P.<br>100 Jericho Quadrangle<br>Suite 214<br>Jericho, NY 11753 | Stockholder | 371,012(1) |
| Michael L. Ashner<br>100 Jericho Quadrangle<br>Suite 214<br>Jericho, NY 11753 | Director, President and Chief Executive Officer | 371,012(2) |

| | | |
|---|---|---|
| Arthur Blasberg, Jr. | Director | 0 |
| Peter Braverman | Director and Executive Vice President | 0 |
| John Ferrari | Director | 0 |
| Howard Goldberg | Director | 0 |



| NAME AND ADDRESS OF BENEFICIAL OWNER | POSITION WITH THE COMPANY | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP |
|---|---|---|
| Carolyn Tiffany | Chief Financial Officer and Treasurer | 0 |
| Steven Zalkind | Director | 10 |
| All directors and executive officers as a group | | 371,022 |

------------------------------------

*Less than 1%

(1) Based upon information contained in a Form 4 filed by HX Investors, L.P. ("HX") with the Securities and Exchange Commission.

(2) Comprised of shares owned by HX. As the sole stockholder of Exeter Capital Corporation, the sole general partner of HX, Mr. Ashner may be deemed to beneficially own all shares owned by HX.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") requires the Company's executive officers, directors and persons who beneficially own greater than 10% of a registered class of the Company's equity securities to file certain reports ("Section 16 Reports") with the Securities and Exchange Commission with respect to ownership and changes in ownership of the Common Stock and other equity securities of the Company. Based solely on the Company's review of the Section 16 Reports furnished to the Company and written representations from certain reporting persons, all Section 16(a) requirements applicable to its officers, directors and greater than 10% beneficial owners have been complied with.

Peter Braverman owns a 10% limited partner interest in HX. Accordingly, Mr. Braverman owns an indirect pecuniary interest in approximately 35,286 of the shares of Common Stock owned by HX. However, as a limited partner in HX, Mr. Braverman does not exercise investment control over the HX shares. Accordingly, Mr. Braverman is not deemed to beneficially own any of such shares under Section 13 or Section 16 of the Exchange Act.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the years ended December 31, 2001, 2002 and 2003, property management services (the "Property Management Services") and asset management services, investor relation services and accounting services (the "Asset Management Services") have been provided to (i) the Predecessor Partnership by affiliates of the general partners of the Predecessor Partnership's (the "Predecessor General Partners") and (ii) the Company by affiliates of the Company.

ASSET MANAGEMENT SERVICES

For the period January 1, 2001 through April 16, 2001, an affiliate of the Predecessor General Partners, Resources Supervisory, provided Asset Management Services for an annual fee equal to 1.25% of the Predecessor Partnership's gross asset value. In addition, the Predecessor Partnership was obligated to (i) pay $200,000 for non-accountable expenses and (ii) reimburse Resources Supervisory for expenses incurred in connection with the performance of its services.



Effective April 17, 2001 through February 14, 2002, Shelbourne Management LLC ("Shelbourne Management"), a wholly-owned subsidiary of Presidio Capital Investment Company, LLC ("PCIC"), provided asset management services to the Company pursuant to the terms of an Advisory Agreement (the "Advisory Agreement") between the Corporation, the Operating Partnership and Shelbourne Management. Pursuant to the terms of the Advisory Agreement, the Corporation was obligated to pay for asset management services, an annual asset management fee, payable quarterly, equal to 1.25% of the Corporation's gross asset value as of the last day of each year. In addition, the Corporation was obligated to (i) pay $200,000 for non-accountable expenses and (ii) reimburse Shelbourne Management for expenses incurred in connection with the performance of its services.

Effective February 14, 2002, in connection with the Transaction (as described below), PCIC began providing such services for a reduced fee of $333,333 per annum (the "Transition Management Fee"). Both Shelbourne Management and PCIC were affiliates of the then management of the Corporation.

Effective October 1, 2002, as contemplated by the Plan of Liquidation, the agreement with PCIC was terminated and Kestrel Management, L.P. ("Kestrel") began providing the Asset Management Services for a fee of $200,000 per annum. Kestrel is an affiliate of the Corporation's current Chief Executive Officer.

PROPERTY MANAGEMENT SERVICES

During the years ended December 31, 2001, 2002 and 2003, property management services were provided by Kestrel pursuant to agreements that provide for a fee of up to 3% of property revenue.

The following table summarizes the amounts paid to affiliates for Expense Reimbursements, Asset Management Fees, Transition Management Fees, and Property Management Fees for the twelve-month periods ended December 31, 2003, 2002 and 2001. All numbers in the tables below include the Corporation's share of fees paid to Kestrel by properties owned by joint ventures in which the

Corporation has an interest.

YEAR ENDED DECEMBER 31, 2003

| | Resources Supervisory | Shelbourne Management | Kestrel |
|---|---|---|---|
| Expense Reimbursement | $ - | $ - | $ - |
| Asset Management Fee | - | - | 200,000 |
| Property Management Fees | - | - | 183,513 |

YEAR ENDED DECEMBER 31, 2002

| | Resources Supervisory | Shelbourne Management | Kestrel |
|---|---|---|---|
| Expense Reimbursement | $ - | $ 25,000 | $ - |
| Asset Management Fee | - | 157,582 | 50,000 |
| Transition Management Fee | - | 208,250 | - |
| Property Management Fees | - | - | 366,524 |



YEAR ENDED DECEMBER 31, 2001

| | Resources Supervisory | Shelbourne Management | Kestrel |
|---|---|---|---|
| Expense Reimbursement | $ 59,444 | $ 140,556 | $ - |
| Asset Management Fee | 394,808 | 947,194 | - |
| Property Management Fees | - | - | 369,139 |

ALLOCATION OF DIVIDENDS BY THE CORPORATION

Dividends payable to affiliates for the years ended December 31, 2003, 2002 and 2001 on account of shares of common stock owned are as follows:

| | Year Ended December 31 | |
|---|---|---|
| | 2003 | 2002 |
| Presidio Capital Investment Company, LLC | $ - | $ - |
| HX Investors, L.P. | 19,014,365 | 5,194,168 |

In addition, effective August 19, 2002, in connection with the settlement of the lawsuit brought by HX Investors, L.P. ("HX Investors"), Shelbourne Management agreed to pay to HX Investors approximately 42% of the amounts paid to Shelbourne Management with respect to the Class A units. Distributions paid to Shelbourne Management on account of its Class A units for the years ended December 31, 2003 and 2002 were $51,462 and $64,314, respectively, of which $21,614 and $11,659, respectively, are payable by Shelbourne Management to HX Investors pursuant to their agreement.

## THE TRANSACTION

On February 14, 2002, the Corporation, Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. (the "Companies") consummated a transaction (the "Transaction") whereby the Corporation purchased the 343,124 shares of the Corporation's common stock held by subsidiaries of PCIC and the Advisory Agreement was contributed to the Operating Partnership. Pursuant to the Transaction, the Corporation paid PCIC $17,866,603 in cash and the Operating Partnership issued preferred partnership interests with an aggregate liquidation preference of $1,015,148 and a note in the amount of $22,034,250. This note was satisfied in April 2002 from the proceeds of the Credit Facility. The liquidation preference was eliminated on January 15, 2003 in connection with the Accotel Transaction.

## RELATED PARTY LOAN PAYABLE

In connection with the Fleet Loan financing, the Corporation, Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. entered into Indemnity, Contribution and Subrogation Agreements, the purpose and intent of which was to place operating partnerships in the same position (as among each other) as each would have been had the lender made three separate loans. Under the terms of the Fleet Loan, the Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. were required to utilize a portion of their proceeds generated by property sales to make principal payments on the Fleet Loan on behalf of the Corporation. In accordance with the terms of the Indemnity, Contribution and Subrogation Agreements, the portion of the Corporation's principal payments made by Shelbourne Properties I, Inc., in the amount of $1,349,257, and Shelbourne Properties III, Inc., in the amount of $5,371,444 are recorded as loans payable that are secured by the Corporation's interest in the entities that own its properties. The principal and accrued interest due to Shelbourne Properties I, Inc. and Shelbourne Properties III, Inc. at December 31, 2003 are $1,352,307 and $5,383,586, respectively. The loans payable require payment of interest under the same terms as the Fleet Loan, which is LIBOR plus 2.75% (3.875% at December 31, 2003).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes the aggregate fees billed to Shelbourne II by the independent auditor:

| ($ in '000s) | 2003 | 2002 |
|---|---|---|
| Audit Fees (a) | 60 | 67 |
| Audit-Related Fees (b) | -- | 17 |
| Tax Fees (c) | 37 | 25 |
| All Other Fees | -- | -- |
| Total | 97 | 109 |

(a) Fees for audit services billed or expected to be billed relating to fiscal 2003 and 2002 consisted of:
- o Audit of the Company's annual financial statements
- o Reviews of the Company's quarterly financial statements

(b) Fees for audit-related services provided during fiscal 2002 consisted of financial accounting and reporting consultations

(c) Fees for tax services provided during fiscal 2003 and 2002 consisted of fees for tax compliance services. Tax compliance services are services rendered based upon facts already in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings and consisted of:

i. Federal, state and local income tax return assistance
ii. REIT compliance
iii. Assistance with tax audits and appeals

| | | |
|---|---|---|
| Memo: Ratio of Tax Planning and Advice Fees and All Other Fees to Audit Fees, Audit-Related Fees and Tax Compliance Fees | 0:1 | 0:1 |

In considering the nature of the services provided by the independent auditor, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with the independent auditor and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the U.S. Securities and Exchange Commission (the "SEC") to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

The Corporation has a policy of requiring that the Audit Committee pre-approve all audit and non-audit services provided to the Corporation by the auditor of its financial statements. During 2003 and 2002, the Audit Committee approved all of the fees paid to Deloitte & Touche LLP by the Corporation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

(1) Financial Statements

Independent Auditors' Report

Consolidated Statements of Net Assets of December 31, 2003 and December 31, 2002 (Liquidation Basis)

Consolidated Statements of Operations and Changes in Net Assets for the Year Ended December 31, 2003, the Period October 30, 2002 to December 31, 2002 (Liquidation Basis), and Consolidated Statement of Operations for the Period January 1, 2002 to October 29, 2002 and for the Year Ended December 31, 2001 (Going Concern Basis)

Consolidated Statements of Equity for the Period January 1, 2002 to October 29, 2002 and the Year Ended December 31, 2001 (Going Concern Basis)

Consolidated Statements of Cash Flows for the Year Ended December 31, 2003, the Period October 30, 2002 to December 31, 2002 (Liquidation Basis) and January 1, 2002 to October 29, 2002 and for the Year Ended December 31, 2001 (Going Concern Basis)

(2) Notes to Consolidated Financial Statements

All schedules are omitted because they are not applicable or not required.

(B) REPORTS ON FORM 8-K

Date Filed: December 23, 2002
Item Reported: 2 (Acquisition or Disposition of Assets)

(C) EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 2.1 | Stock Purchase Agreement among HX Investors, Exeter Capital Corporation and the Company (4) |
| 2.2 | Amendment No. 1 to Stock Purchase Agreement (6) |
| 2.3 | Plan of Liquidation (7) |
| 3.1 | Amended and Restated Certificate of Incorporation of the Company (1) |
| 3.2 | Amended and Restated Bylaws of the Company(1) |
| 4.1 | Limited Partnership of the operating partnership (1) |

| | |
|---|---|
| 4.2 | Stockholder Rights Agreement (1) |
| 4.3 | Amendment to Stockholder Rights Agreement (2) |
| 4.4 | Restated Partnership Unit Designation for 5% Class A Preferred Partnership Units (incorporated by reference to Exhibit E-1 of Exhibit 10.4) (9) |
| 4.5 | Stockholder Agreement, among the Companies and HX Investors, LP and Exeter Capital Corporation, dated as of April 30, 2002 (3) |
| 4.6 | Amendment No. 2 to Stockholder Rights Agreement (5) |
| 4.7 | Partnership Unit Designation of the Class B Partnership Units of the Operating Partnership(8) |
| 10.1 | Settlement Agreement and Mutual Release between HX Investors, the Companies and Shelbourne Management (4) |
| 10.2 | Amendment No. 1 to Settlement Agreement (6) |
| 10.3 | Purchase Agreement, dated as of January 15, 2003, between the Shelbourne JV LLC and Realty Holdings of America, LLC (9) |



| | |
|---|---|
| 10.4 | Agreement, dated as of January 15, 2003, among Presidio Capital Investment Company, LLC (and certain of its subsidiaries), Shelbourne Management, NorthStar Capital Investment Corp., each of the Shelbourne REITs and its operating partnership and HX Investors, L.P. (9) |
| 10.5 | Loan Agreement, dated as of February 19, 2003, among Shelbourne Properties I L.P., Shelbourne Properties II L.P., Shelbourne Properties III L.P., Shelbourne Richmond Company LLC, Shelbourne Matthews Company LLC, Shelbourne Las Vegas Company LLC, Century Park I Joint Venture, Seattle Landmark Joint Venture, Tri-Columbus Associates and Fleet National Bank and the other lending institutions which may become party thereto and Fleet National Bank, as agent (10) |
| 10.6 | Form of Guaranty, dated as of February 19, 2003, from Shelbourne Properties II, Inc. and Shelbourne Properties II L.P. (10) |
| 10.7 | Form of Indemnity, Contribution and Subrogation Agreement, dated as of February 19, 2003, among the REITs and the operating partnerships (10) |
| 10.8 | Form of Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing with respect to the Collateral Properties dated as of February 19, 2003 in favor of Fleet National Bank (10) |
| 10.9 | Cash Management Agreement, dated February 19, 2003, among Shelbourne Properties I L.P., Shelbourne Properties II L.P., Shelbourne Properties III L.P., Fleet National Bank, as agent for itself and the Lenders, and various subsidiaries of the |

Shelbourne OP's listed on Exhibit A thereto (10)

31 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) incorporated by reference to the Registration Statement of the Company on Form S-4 filed on February 11, 2000, as amended

(2) incorporated by reference to the Current Report of the Company on Form 8-K filed on February 14, 2002

(3) incorporated by reference to the Current Report of the Company on Form 8-K filed on May 14, 2002.

(4) incorporated by reference to the Current Report of the Company on Form 8-K filed on July 2, 2002.

(5) incorporated by reference to the Current Report of the Company on Form 8-K filed on July 8, 2002

(6) incorporated by reference to the Current Report of the Company on Form 8-K filed on August 5, 2002

(7) incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on September 27, 2002

(8) incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on November 14, 2002.

(9) incorporated by reference to the Current Report of the Company on Form 8-K filed on January 15, 2003.

(10) incorporated by reference to the Current Report of the Company on Form 8-K filed on February 24, 2003.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

| | |
|---|---|
| Dated: March 25, 2004 | By: /s/ Michael L. Ashner<br>Michael L. Ashner<br>Chief Executive Officer |
| Dated: March 25, 2004 | By: /s/ Carolyn B. Tiffany<br>Carolyn B. Tiffany<br>Chief Financial Officer |

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

| NAME | TITLE |
|---|---|
| /s/ Michael L. Ashner<br>MICHAEL L. ASHNER | Chief Executive Officer and Director |
| /s/ Arthur Blasberg, Jr.<br>ARTHUR BLASBERG, JR. | Director |
| /s/ Howard Goldberg<br>HOWARD GOLDBERG | Director |
| /s/ Steven Zalkind<br>STEVEN ZALKIND | Director |

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2003

EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 2.1 | Stock Purchase Agreement among HX Investors, Exeter Capital Corporation and the Company |
| 2.2 | Amendment No. 1 to Stock Purchase Agreement |
| 2.3 | Plan of Liquidation |
| 3.1 | Amended and Restated Certificate of Incorporation of the Company |
| 3.2 | Amended and Restated Bylaws of the Corporation |
| 4.1 | Limited Partnership of the operating partnership |
| 4.2 | Stockholder Rights Agreement |
| 4.3 | Amendment to Stockholder Rights Agreement |
| 4.4 | Restated Partnership Unit Designation for 5% Class A Preferred Partnership Units (incorporated by reference to Exhibit E-1 of Exhibit 10.4) |
| 4.5 | Stockholder Agreement, among the Companies and HX Investors, LP and Exeter Capital Corporation, dated as of April 30, 2002 |
| 4.6 | Amendment No. 2 to Stockholder Rights Agreement |
| 4.7 | Partnership Unit Designation of the Class B Partnership Units of the Operating Partnersh |
| 10.1 | Settlement Agreement and Mutual Release between HX Investors, the Companies and Shelbourne Management |
| 10.2 | Amendment No. 1 to Settlement Agreement |
| 10.3 | Purchase Agreement, dated as of January 15, 2003, between the Shelbourne JV LLC and Realty Holdings of America, LLC |
| 10.4 | Agreement, dated as of January 15, 2003, among Presidio Capital Investment Company, LLC (and certain of its subsidiaries), Shelbourne Management, NorthStar Capital Investment Corp., each of the Shelbourne REITs and its operating partnership and HX Investors, L.P. |
| 10.5 | Loan Agreement, dated as of February 19, 2003, among Shelbourne Properties I L.P., Shelbourne Properties II L.P., Shelbourne Properties III L.P., Shelbourne Richmond Company LLC, Shelbourne Matthews Company LLC, Shelbourne Las Vegas Company LLC, Century Park I Joint Venture, Seattle Landmark Joint Venture, Tri-Columbus Associates and Fleet National Bank and the other lending institutions which may become party thereto and Fleet National Bank, as agent |
| 10.6 | Form of Guaranty, dated as of February 19, 2003, from Shelbourne Properties II, Inc. and Shelbourne Properties III L.P. |
| 10.7 | Form of Indemnity, Contribution and Subrogation Agreement, dated as of February 19, 2003, among the REITs and the operating partnerships |
| 10.8 | Form of Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing with respect to the Collateral Properties dated as of February 19, 20 in favor of Fleet National Bank |
| 10.9 | Cash Management Agreement, dated February 19, 2003, among Shelbourne Properties I L.P., Shelbourne Properties II L.P., Shelbourne Properties III L.P., Fleet National Ba as agent for itself and the Lenders, and various subsidiaries of the Shelbourne OP's lis on Exhibit A thereto |
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