

# CONDOR

HOSPITALITY TRUST



COURTYARD  
Marriott

2015 ANNUAL REPORT



**CONDOR HOSPITALITY TRUST**

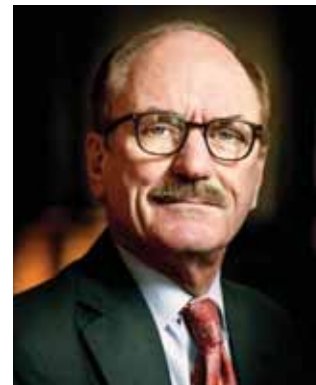
Condor Hospitality Trust, Inc. (NASDAQ: CDOR), is a self-administered real estate investment trust that specializes in the investment and ownership of upper midscale and upscale, premium-branded select-service, extended stay, and limited-service hotels. The Company currently owns 37 hotels in 17 states, including three assets acquired in October 2015 that represent the new strategic direction of the portfolio. The Company's hotels are franchised under premium brands such as Hilton, Marriott, IHG, Choice and Wyndham, and operated by third party management companies.





## TO OUR SHAREHOLDERS,

LOOKING BACK, 2015 WAS AN EXTREMELY PRODUCTIVE YEAR FOR CONDOR. WE ACCOMPLISHED MANY IMPORTANT TASKS THAT POSITIONED THE COMPANY WITH A STRONG FOUNDATION AT THE START OF 2016. THE LARGE CONCENTRATION OF 2015 DEBT MATURITIES WAS REFINANCED RESULTING IN A LADDERED MATURITY SCHEDULE WITH LESS THAN 4% OF TOTAL DEBT MATURING IN 2016 AND A SIGNIFICANT 1.2% REDUCTION IN THE WEIGHTED AVERAGE INTEREST RATE. SEVENTEEN LEGACY HOTELS WERE SOLD AS WE ACCELERATED DISPOSITIONS IN ORDER TO RECYCLE CAPITAL INTO HIGHER QUALITY HOTELS THAT MEET OUR NEW INVESTMENT STRATEGY.



J. William Blackham  
President and Chief Executive Officer

We closed early in the fourth quarter on the acquisition of three new investment platform hotels, totaling 378 rooms in three states. This transaction of \$42.5 million was funded entirely with recycled capital and new debt financing. We began the process of rebranding the Company, which involved our name change to Condor, an enhanced website, and a new logo and greater transparency on the direction of the Company. In addition to my joining the Company as Chief Executive Officer, we hired Arinn Cavey for the newly-created position of Chief Accounting Officer and Jonathan Gantt as our new Chief Financial Officer. Finally, in December, we entered into substantive discussions for a \$30 million investment by an affiliate of StepStone Group, which closed in March 2016. Each of these accomplishments individually are inherently valuable, but taken together, they truly make 2015 a turning point for the Company.

In 2015 and the first quarter of 2016, there were also a number of more subtle achievements that are as equally important but may be inadvertently missed due to the many successes aforementioned. We believe that over the past year, the Company has enjoyed renewed visibility in the capital markets, gaining respect for the positive accomplishments achieved in a short time period. Additionally, we expanded relationships with owners, brokers, and management companies to create a robust pipeline of potential hotel acquisitions. In the first quarter of 2016, we realized significant savings on our Property & Liability and our

Directors & Officers coverage premiums. We relocated our corporate headquarters to Bethesda, Maryland, a hub of both hotel companies and hotel REITs. Our Chief Financial Officer will maintain an office in Bethesda and, if needed, will have access to the large pool of experienced hospitality talent in the area. We have also significantly improved the liquidity position of the Company over the past year. We increased liquidity to approximately \$15 million at the end of the third quarter, enabling the closing of the \$42.5 million transaction. Our liquidity position was strong at year-end and has continued to improve during the first quarter of 2016, positioning the Company with the ability to commit to acquisitions in the second quarter of 2016. Finally, as a result of the improvements in the Company's balance sheet and liquidity, the going concern qualification contained in last years' audit opinion was removed in the 2015 audit opinion by our auditors, KPMG LLP.

The StepStone transaction involved more than the \$30 million capital investment in our Company. The investment enabled us to significantly advance our goal of improving the quality and structure of our balance sheet. More specifically, the following improvements were achieved: [1] We created a single class of convertible preferred stock, Series D, which exceeds \$60 million due to the conversion of the Series C class into the new Series D, [2] The entire Series D preferred stock converts to approximately 39.0 million shares of our common stock at \$1.60 per share upon



the closing of a qualified common stock offering of at least \$50 million, [3] We successfully retired all of the Series A and Series B preferred stock, including accrued dividends, utilizing approximately \$20 million of the proceeds, and [4] The closing generated approximately \$7.5 million of proceeds that will be utilized along with legacy hotel sales proceeds to acquire assets that meet our new investment platform criteria. We were gratified to see the rebound of our common share price following our announcement in March of the StepStone investment from the share price lows during December and January of below \$1.00.

As we proceed with the transition of Condor, we have segregated the portfolio into three asset classes to ease both internal management and external understanding. The three asset classes are as follows: [1] Legacy hotels that will be sold in the near-term, [2] Legacy hotels that will be held for an undetermined time period in order to drive higher shareholder value, and [3] Hotels that fit within our new investment platform criteria. The legacy hotels numbered 44 at the beginning of 2015 and with 17 closed sales during the year resulted in 27 remaining at the close of 2015. We expect to market up to 27 legacy hotels in 2016, including four which we successfully closed in the first quarter. At a minimum, we anticipate disposing of 20 legacy hotels in 2016. Given the targeted repositioning of the portfolio, I will not address the operating performance of the legacy hotels as this information is readily available in our public filings and, frankly, the legacy hotels relate to the former strategy of the Company. Conversely, the new acquisitions are very indicative of what we believe the Company will achieve in the future. The one new investment platform hotel that we owned for the entire year achieved a 12.7%

RevPAR increase, accomplished a 4% increased penetration to the competitive set, and significantly increased its operating income. The three hotels we acquired in October 2015 achieved results in excess of underwriting in the fourth quarter, and our 2016 budgets for these assets project realizing an almost 10% operating income yield on our purchase price in 2016 and in excess of 35% operating margins for our first full year of ownership. We believe similar results on future acquisitions will be accretive and could help grow shareholder value depending on future market conditions.

Once again this year, as I conclude my first year in the role of CEO of the Company, let me express appreciation for your continued confidence in the Company, the Board of Directors, and the management team. In the upcoming year, we will place additional information on our website to provide even greater transparency in an effort to further enhance communication with our investors. We remain committed to a successful transition of Condor and we are more confident than ever that with its entirely different investment strategy Condor is well-positioned for significant future growth and shareholder value creation.

Very truly yours,

J. William Blackham  
President and Chief Executive Officer

## OUR MISSION

**Provide to our shareholders attractive total returns for the lodging sector, through disciplined investment in high-quality select-service, limited-service, extended stay and compact full-service hotels, and intensive asset management to achieve enhanced results.**



## 2015 HIGHLIGHTS



**ACQUISITIONS:** In October 2015, the Company acquired three premium-branded hotels in an off-market transaction for \$42.5 million. The properties are representative of the new strategic direction of the Company's portfolio into higher quality, premium-branded select-service properties.

**DISPOSITIONS:** In 2015, the Company sold 17 non-core hotels for gross proceeds of \$54.7 million. In the first quarter 2016, the Company sold four non-core hotels with an aggregate of 425 rooms for combined gross proceeds of \$9.4 million. The Company expects continued success in 2016 disposing of the legacy assets at attractive valuations.

**MANAGEMENT:** The Company hired industry veteran Bill Blackham as Chief Executive Officer in March 2015. Mr. Blackham, previously the president and CEO of Eagle Hospitality, has an accomplished record of establishing and growing public and private companies. The Company hired Arinn A. Cavey, formerly with KPMG LLP, as Chief Accounting Officer in September 2015. Arinn will oversee the Company's financial plans, SEC compliance matters, and banking relationships. The Company hired Jonathan J. Gantt, formerly with Starwood Hotels & Resorts, as Senior Vice President and Chief Financial Officer in October 2015. Jonathan will lead the Company's capital raising efforts as well as provide overall direction for the Company's accounting, financial reporting, tax, and budget activities.



## 2015 HIGHLIGHTS (CONTINUED)

**CAPITAL RAISE:** Subsequent to the close of the year, Condor announced that it had raised \$30.0 million in a private placement transaction with StepStone Real Estate, an affiliate of the StepStone Group. A portion of the proceeds were used to redeem in cash all outstanding Series A and Series B preferred stock, including all unpaid accrued dividends. Excess proceeds will be utilized by the Company to accelerate the strategic repositioning of its portfolio to high-quality select-service, limited-service, extended stay, and compact full-service hotels. Simultaneous with StepStone's Series D investment, the Company's outstanding Series C preferred stock was also exchanged for the newly created Series D preferred stock, resulting in one class of preferred stock that the Company can require conversion entirely to common stock upon the occurrence of defined capital events.

**BALANCE SHEET:** Significant progress has been made in improving the debt profile and liquidity position of the Company. On October 26, 2015, the Company successfully closed a \$10.0 million mortgage loan with Huntington National Bank, successfully refinancing the last significant 2015 loan maturity and positioning the Company with no significant 2016 loan maturities.

**REBRANDING:** In 2015, the Company changed its name to Condor Hospitality Trust, Inc., established a new logo and company image, and launched a new website: [www.condorhospitality.com](http://www.condorhospitality.com).





CONDOR HOSPITALITY TRUST 10-K





**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549  
FORM 10-K**

(Mark one)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2015
- 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: 001-34087

**Condor Hospitality Trust, Inc.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**1800 W. Pasewalk Ave., Norfolk, NE**  
(Address of principal executive offices)

**52-1889548**

(I.R.S. Employer  
Identification No.)

**68701**  
(Zip Code)

**(402) 371-2520**

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value per share	The NASDAQ Stock Market, LLC
8% Series A Preferred Stock, \$.01 par value per share	The NASDAQ Stock Market, LLC
10% Series B Cumulative Preferred Stock, \$.01 par value per share	The NASDAQ Stock Market, LLC

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 or the Exchange Act.

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company)

Smaller reporting company [X]

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

As of June 30, 2015 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$10.6 million based on the price at which the common stock was last sold on that date as reported on the Nasdaq Global Market. At March 18, 2016, there were 4,941,878 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement for the Registrant's 2016 Annual Meeting of Stockholders (the "2016 Proxy Statement") to be filed within 120 days of the fiscal year ended December 31, 2015, are incorporated into Part III.

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## **FORWARD-LOOKING STATEMENTS**

Certain information both included and incorporated by reference in this Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on assumptions that management has made in light of experience in the business in which we operate, as well as management's perceptions of historical trends, current conditions, expected future developments, and other factors believed to be appropriate under the circumstances. These statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond our control), and assumptions. Management believes that these forward-looking statements are based on reasonable assumptions.

Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend," or "project" or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in: economic conditions generally and the real estate market specifically, legislative/regulatory changes (including changes to laws governing the taxation of real estate investment trusts), availability of capital, risks associated with debt financing, interest rates, competition, supply and demand for hotel rooms in our current and proposed market areas, policies and guidelines applicable to real estate investment trusts, and other risks and uncertainties described herein, and in our filings with the SEC from time to time. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein. We caution readers not to place undue reliance on any forward-looking statements included in this report which speak only as of the date of this report.

## **PART I**

### **ITEM 1. BUSINESS**

References to "we," "our," "us," and "Company" refer to Condor Hospitality Trust, Inc., including, as the context requires, its direct and indirect subsidiaries.

#### **Overview**

Condor Hospitality Trust, Inc. ("CDOR," "Condor," or the "Company"), which until July 15, 2015 was formerly named Supertel Hospitality, Inc., was incorporated in Virginia on August 23, 1994 and was reincorporated in Maryland on November 19, 2014. Our common stock began to trade on the Nasdaq Stock Market on October 30, 1996 and trades under the symbol "CDOR". Our Series A and Series B preferred stock began to trade on the Nasdaq Stock Market on December 30, 2005 and June 3, 2008, respectively.

CDOR is a self-administered real estate investment trust (REIT) for federal income tax purposes that specializes in the investment and ownership of high quality select service, limited service, extended stay, and compact full service hotels. As of December 31, 2015, the Company owned 42 hotels, representing 3,504 rooms, in 20 states.

Our significant events for 2015 include:

- On October 1 and 2, 2015, the Company acquired three premium select service hotels from affiliates of Peachtree Hotel Group II, LLC. The hotels are located in San Antonio, Texas; Jacksonville, Florida; and Atlanta, Georgia. The total purchase price was approximately \$42.5 million.
- We sold 17 hotels for gross proceeds of \$54.7 million and primarily used the net proceeds, after repayment of the underlying loans, to fund the October 2015 acquisitions, to build cash reserves for future hotel acquisitions, and for general corporate purposes.

- Effective July 15, 2015, the Company changed its name to Condor Hospitality Trust, Inc. from Supertel Hospitality, Inc.
- J. William Blackham joined the Company as Chief Executive Officer in March, Jonathan Gantt joined the Company as Senior Vice President and Chief Financial Officer in October, and Arinn Cavey joined the Company as Chief Accounting Officer in September.

Additionally, as discussed further in the Subsequent Events footnote to the consolidated financial statements, on March 16, 2016, the Company entered into a series of agreements providing for (a) the issuance and sale of Condor's Series D cumulative convertible preferred stock in a private transaction, (b) the exchange of all of Condor's outstanding Series C preferred stock for Series D preferred stock, and (c) the cash redemption of all of Condor's outstanding Series A and Series B preferred stock.

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotel properties are owned by our operating partnerships, Supertel Limited Partnership and its subsidiaries ("SLP") and E&P Financing Limited Partnership and its subsidiaries ("E&P"), for which we serve as general partner. As of December 31, 2015, we owned an approximate 90.1% ownership interest in SLP and a 100% ownership in E&P. In the future, SLP may issue limited partnership interests to third parties from time to time in connection with our acquisition of hotel properties or the raising of capital.

In order for the income from our hotel property investments to constitute "rents from real properties" for purposes of the gross income tests required by the Internal Revenue Service ("IRS") for REIT qualification, the income we earn cannot be derived from the operation of any of our hotels. Therefore, SLP and E&P and their subsidiaries lease our hotel properties to the Company's wholly owned taxable REIT subsidiary, TRS Leasing, Inc., and its wholly owned subsidiaries ("the TRS"). The TRS in turn engages third-party eligible independent contractors to manage the hotels. SLP, E&P, and the TRS and their respective subsidiaries are consolidated into the Company's financial statements.

We are engaged primarily in the business of owning equity interests in hotel properties and therefore our business is disclosed as one reportable segment. See the consolidated financial statements and notes thereto included in Item 8 of this Annual Report on Form 10-K for certain financial information required in this Item 1.

### **Mission Statement**

Our mission is to provide to our shareholders attractive total returns for the lodging sector through (1) disciplined investment in high quality select service, limited service, extended stay, and compact full service hotels, and (2) intensive asset management to achieve enhanced results.

We achieve this mission through the disciplined and efficient execution of the following Core Strategies:

- Acquisition Strategy
- Disposition Strategy
- Asset Management Strategy
- Financing Strategy

We understand that we cannot achieve our mission alone and therefore partner with the following primary Business Partners in the execution of our mission:

- Franchise Partners
- Management Partners

### **Core Strategies**

#### ***Acquisition Strategy***

The objective of our acquisition strategy is to enable us to acquire assets that meet our target property characteristics and investment criteria at attractive valuations. We believe that our existing relationships with owners, operators, and developers of select service hotels will provide us with access to certain off-market acquisition opportunities

before they become known to other real estate investors. Typically, off-market transactions lead to more attractive valuation outcomes. Our organizational documents do not limit the types of investments we can make; however, our intent is to execute the acquisition strategy as detailed herein.

We believe our target property characteristics and investment criteria, coupled with our ability to source off-market transactions, differentiates us from our peers and will enable us to achieve our mission of attractive returns to our shareholders.

### *Target Property Characteristics*

Our target properties are high quality select service, limited service, extended stay, and compact full service hotels located primarily in the top 25 – 100 Metropolitan Statistical Areas (“MSAs”), with a focus on the top 25 – 50 MSAs. From time to time, we may acquire assets outside these target MSAs if we are able to acquire the asset at an attractive valuation and have confidence in the value proposition of the property. If within a top 25 MSA, the asset will typically be located within a secondary or tertiary market of the larger MSA. The hotels we will look to acquire will be franchised under premium flags by brands such as Hilton, Marriott, IHG, Choice, Hyatt, Starwood, and Wyndham, and operated by third party management companies.

In October 2015, we acquired three hotels that reflect the aforementioned target property characteristics: Marriott Courtyard Jacksonville, Florida; Hotel Indigo Atlanta, Georgia; and Springhill Suites San Antonio, Texas.

### *Investment Criteria*

We perform thorough due diligence and utilize extensive research to evaluate any target market or property. This due diligence and research may include, but is not limited to, analyzing the long-term economic outlook of an MSA, reviewing trends in local lodging demand and supply, assessing property condition and required capital investment, and understanding historical property financial performance. Specific investment criteria for hotels we are looking to acquire may include but are not limited to:

- hotels that operate under leading premium franchise brands and possess key attributes such as building design and décor that is consistent with current generation brand standards;
- hotels that are located within the top 25 – 100 MSAs, in close proximity to multiple demand drivers, including large corporations, regional hospitals, regional business hubs, recreational travel destinations, significant retail centers, and military installations, among others;
- hotels that are located within markets that have favorable economic, job growth, and demographic factors;
- hotels that have illustrated an ability to generate stabilized and dependable revenue and net operating income;
- hotels that were constructed or underwent major renovations less than ten years prior to our acquisition and have significant time (generally ten or more years) remaining on the existing franchise license;
- hotels that have some value-added growth potential through operating efficiencies, institutional asset management, repositioning, renovations, or rebranding;
- hotels that can be acquired at a discount to replacement cost; and/or
- hotels that can be acquired in off-market transactions.

### *Disposition Strategy*

Currently, we are engaged in a process of transitioning our portfolio from economy hotels to high quality select service, limited service, and extended stay hotels. In order to achieve this objective, we have focused on disposing of legacy assets that do not meet the property characteristics and investment criteria discussed above. In the last five years, we have sold 68 hotels. The value unlocked from asset sales will be redeployed into newer, higher-quality assets meeting the acquisition strategy discussed above. Just as we carefully evaluate the hotels we plan to acquire, our asset management team has evaluated the timing and composition of the legacy hotels to be disposed of in order to maximize returns for our shareholders. We are committed to a disciplined but timely monetization of the legacy assets in order to achieve the strategic repositioning of the portfolio. In 2016, we will continue to dispose of assets that do not fit the new strategic vision of our portfolio.

Additionally, from time to time, we may undertake the sale of one or more hotels that meet the property characteristics and investment criteria discussed above. These disposition decisions are the result of a thorough analysis and typically in response to changes in market conditions, our current or projected return on our investment in the hotel, or other factors which we deem relevant to the disposition decision.

### ***Asset Management Strategy***

Through collaboration with our third-party operators, we seek to maximize value to our shareholders through improvements to our existing hotels' operating results. We achieve this result by constantly monitoring the performance of each individual hotel and identifying opportunities for value-enhancement through intensive asset management strategies. We will make recommendations to our third-party operators in all aspects of our hotels operations, including revenue management, physical design, guest experience, market positioning, and overall property strategy. Fundamentally, all strategies are focused on growing the revenue of a hotel, controlling expenses, and/or maximizing the guest experience to drive returns.

We work with our third-party operators to develop short- and long-term capital investment plans that are focused on generating positive returns for our shareholders. The capital improvements may involve investments in expansions, additions, renovations, technology upgrades, and/or energy efficiency improvements.

Additionally, from time to time, we may come to the conclusion that a particular asset may provide greater returns to our shareholders after an extensive repositioning of the asset in the market. In these instances, capital investment in a greater amount than typical for an asset may be required to achieve the desired repositioning. These decisions are made after a thorough analysis of the property, market conditions, and the potential for a positive return on investment that exceeds our investment hurdle rates.

### ***Financing Strategy***

Our financing strategy is to minimize the cost of our capital in order to maximize the returns generated for our shareholders. We intend to finance our long-term growth with common and preferred equity issuances and debt financings that have staggered maturities. From time to time, when purchasing hotel properties, we may issue limited partnership interests in SLP to third parties as full or partial consideration to sellers. Currently, our debt includes a recourse line of credit secured by certain hotels and mortgages secured by our hotel properties. In the future we plan on using a revolving credit facility, term loans, common and preferred equity issuances, and mortgage debt financings to fund future acquisitions as well as for property redevelopments, return on investment initiatives, and working capital requirements.

### **Business Partners**

#### ***Franchise Partners***

We believe that in order to achieve our mission we must partner with the right franchisors of quality brands in our target segments. To this end, we have built strong relationships with many of the leading franchisors of the strongest brands in the segments we target, including Hilton, Marriott, IHG, Choice, and Wyndham. The franchisors provide a variety of benefits and value which include national advertising, marketing programs to increase brand awareness, personnel training, and centralized reservation systems. We are constantly monitoring and evaluating the performance of these franchisors and their respective brands so that, when necessary, we can adapt our franchise partner strategy to maximize returns to our shareholders.

Under our franchise agreements, we are required to pay franchise fees generally between 3.3% and 5.5% of room revenue, plus additional fees for marketing, central reservation systems, and other franchisor programs and services that amount to between 2.5% and 6.0% of room revenue. The franchise agreements typically have 10 to 25 year terms although certain agreements may be terminated by either party on certain anniversary dates specified in the agreements. Further, each agreement provides for early termination fees in the event the agreement is terminated before the stated term.

Our 42 hotels owned at December 31, 2015 operate under the following national and independent brands. Pursuant to our previously discussed strategy, we envision the composition of this brand portfolio to change dramatically as we continue to transition the portfolio.

<b>Franchise Brand</b>	<b>Number of Hotels</b>	<b>Number of Rooms</b>
<b>Acquired In or Since 2012:</b>		
Courtyard by Marriott (1)	1	120
Hilton Garden Inn (2)	1	100
Hotel Indigo (3)	1	142
Springhill Suites (1)	1	116
<b>Legacy Properties Owned Prior to 2012:</b>		
Super 8 (4)	13	1,020
Comfort Inn/Comfort Suites (5)	12	908
Quality Inn (5)	5	303
Days Inn (4)	3	321
Savannah Suites (6)*	2	334
Clarion (5)	1	59
Key West Inn (7)	1	40
Supertel Inn (8)*	1	41
<b>Total</b>	<b>42</b>	<b>3,504</b>

(1) Courtyard by Marriott® and Springhill Suites® are a registered trademarks of Marriott International.

(2) Hilton Garden Inn® is a registered trademark of Hilton Hotels Corporation

(3) Hotel Indigo® is a registered trademark of InterContinental Hotels Group (IHG)

(4) Super 8® and Days Inn® are registered trademarks of Wyndham Worldwide

(5) Clarion®, Comfort Inn®, Comfort Suites®, and Quality Inn® are registered trademarks of Choice Hotels International, Inc.

(6) Savannah Suites® is a registered trademark of Guest House Inn Corp.

(7) Key West Inn® is a registered trademark of Key West Inns.

(8) Supertel Inn® is a registered trademark of Condor Hospitality Trust, Inc.

\* Independent hotel brands unassociated with a national franchise brand

### **Management Partners**

As a REIT, we are not permitted to directly operate any of our hotels. We partner closely with some of the leading hotel management companies in order to operate our hotels with the ultimate objective of improving same-store hotel performance throughout our portfolio. Each management agreement provides for a set term and is subject to early termination upon the occurrence of defaults and certain other events. As required under the REIT qualification rules, each manager must qualify as an “eligible independent contractor” during the term of the management agreement.

Our 42 hotels owned at December 31, 2015 are operated by the following third-party management companies:

<b>Management Company</b>	<b>Number of Hotels</b>	<b>Number of Rooms</b>
Kinseth Hotel Corporation	15	1,147
Strand Development Company, LLC	13	1,022
Hospitality Management Advisors, Inc.	10	857
Peachtree Hospitality Management, LLC	3	378
Cherry Cove Hospitality Management, LLC	1	100
<b>Total</b>	<b>42</b>	<b>3,504</b>

## **Seasonality of Hotel Business**

Historically, as a result of the geographic areas in which we operate, the operations of our hotels have been seasonal in nature. Generally, occupancy rates, revenue, and operating income have been greater in the second and third quarters of the calendar year than in the first and fourth quarters, with the exception of our hotels located in Florida, which experience peak demand in the first and fourth quarters of the year. The results of the hotels acquired in October 2015, because of their locations and chain scale, are expected to be less seasonal in nature than our legacy portfolio of assets.

## **Competition**

The hotel industry is highly competitive. Each of our hotels is located in a developed area that includes other hotel properties. The number of competitive hotel properties in a particular area could have a material adverse effect on revenue, occupancy, and the average daily room rate of our hotels or of hotel properties acquired in the future, and thus our financial results.

We may compete for investment opportunities with entities that have substantially greater financial resources than us. These entities generally may be able to accept more risk than we can prudently manage. Competition in general may reduce the number of suitable investment opportunities for us and increase the bargaining power of property owners seeking to sell.

## **Tax Status**

The Company qualifies and intends to continue to qualify as a REIT under the applicable provisions of the Internal Revenue Code (the "Code"), as amended. In general, under such Code provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income, will not be subject to federal income tax to the extent of the income currently distributed to shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will be unable to re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT, unless we satisfy certain relief provisions. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. Taxable income from non-REIT activities managed through the TRS, which is taxed as a C-Corporation, is subject to federal, state, and local income taxes.

## **Employees**

At December 31, 2015, the REIT had 15 employees. The staff at our hotels are employed by our third-party hotel managers.

## **Available Information**

Our executive offices are located at 1800 West Pasewalk Avenue, Suite 200, Norfolk, Nebraska 68701, our telephone number is (402) 371-2520, and we maintain an Internet website located at [www.condorhospitality.com](http://www.condorhospitality.com). Our annual reports on Form 10-K and quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available free of charge on our website as soon as reasonably practicable after they are filed with the SEC. We also make available the charters of our board committees and our Code of Business Conduct and Ethics on our website. Copies of these documents are available in print to any shareholder who requests them. Requests should be sent to Condor Hospitality Trust, Inc., 1800 West Pasewalk Avenue, Suite 200, P.O. Box 1448, Norfolk, Nebraska 68701, Attn: Corporate Secretary.



## ITEM 1A. RISK FACTORS

### Risks Related to Our Business

***The economy has negatively impacted the hotel industry and our business, and we incurred losses in fiscal years 2011 to 2014.***

A soft economy and apprehension among consumers have negatively impacted the hotel industry and our business and contributed to our net losses of \$16.3 million, \$1.4 million, \$10.2 million, and \$17.5 million for our 2014, 2013, 2012, and 2011 fiscal years, respectively. The slowing economy caused a softening in business travel, especially among construction-related workers, who are a particularly strong guest group for many of our hotels. Recent improvements in the economy and midscale sectors are reflected in our 2015 and 2014 results. However, future deterioration in the economy could harm our growth and financial results.

***Our returns depend on management of our hotels by third parties.***

In order to qualify as a REIT, we cannot operate any hotel or participate in the decisions effecting the daily operations of any hotel. Under the REIT Modernization Act of 1999, REITs are permitted to lease their hotels to TRSs. However, a TRS, such as our TRS, may not operate or manage the leased hotels and, therefore, must enter into management agreements with third-party eligible independent contractors to manage the hotels. Thus, an independent operator under a management agreement with our TRS controls the daily operations of each of our hotels.

Under the terms of our management agreements, our ability to participate in operating decisions regarding the hotels is limited. We depend on our management companies to adequately operate our hotels as provided in the management agreements. We do not have the authority to require any hotel to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (for instance, setting room rates). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, revenue per available room, and average daily rates, we may not be able to force our management companies to change their methods of operation of our hotels. We can only seek redress if a management company violates the terms of the management agreement with our TRS, and then only to the extent of the remedies provided for under the terms of the applicable management agreement. If any of the foregoing occurs at franchised hotels, our relationship with the franchisors may be damaged, and we may be in breach of one or more of our franchise agreements. Additionally, in the event that we need to replace a management company, we may experience decreased occupancy and other significant disruptions at our hotels and in our operations generally.

***Failure of the hotel industry to continue to improve or remain stable may adversely effect our ability to execute our business strategies, which in turn would adversely effect our ability to make distributions to our stockholders.***

Our business strategy is focused in the hotel industry, and we cannot assure you that hotel industry fundamentals will continue to improve or remain stable. Economic slowdown and world events outside our control, such as terrorism, have adversely effected the hotel industry in the recent past and if these events reoccur, they may adversely effect the industry in the future. In the event conditions in the hotel industry do not continue to improve or remain stable, our ability to execute our business strategies will be adversely effected, which in turn would adversely effect our ability to make distributions to our stockholders.

***We face competition for the acquisition of hotels and we may not be successful in identifying or completing hotel acquisitions that meet our criteria, which may impede our growth.***

One component of our business strategy is expansion through acquisitions, and we may not be successful in identifying or completing acquisitions that are consistent with our strategy. We compete with institutional pension funds, private equity investors, other REITs, hotel companies, and others who are engaged in the acquisition of hotels. This competition for hotel investments may increase the price we pay for hotels and these competitors may succeed in acquiring the hotels we seek to acquire. Furthermore, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater marketing and financial resources, may be

willing to pay more, or may have a more compatible operating philosophy. In addition, the number of entities competing for suitable hotels may increase in the future, which would increase demand for these hotels and the prices we must pay to acquire them. If we pay higher prices for hotels, our returns on investment and profitability may be reduced. Also, future acquisitions of hotels may not yield the returns we expect and may result in stockholder dilution.

***Future acquisitions may not yield the returns expected, may result in disruptions to our business, may strain management resources, may not be efficiently integrated into operations, and may result in stockholder dilution.***

Our business strategy may not ultimately be successful and may not provide positive returns on our investments. Acquisitions may cause disruptions in our operations and divert management's attention away from day-to-day operations. If the integration of our acquisitions into our management companies' operations is not accomplished as efficiently as planned, we will not achieve the expected operating results from the acquisitions. The issuance of equity securities in connection with any acquisition could be substantially dilutive to our stockholders.

***A recession could have a material adverse effect on our results of operations.***

The performance of the hotel industry usually follows the general economy. During the recession of 2008 and 2009, overall travel was reduced, which had a significant effect on our results of operations. Uncertainty in the strength and direction of the recovery have slowed the pace of the overall economic recovery. A stall in the economic recovery or a resurgent recession could have a material adverse effect on our results of operations.

***We will likely seek to sell equity and/or debt securities to meet our need for additional cash, and we cannot assure you that such financing will be available and further, in connection with such sales our current shareholders could experience a material amount of dilution.***

We may require additional cash resources based on business conditions and any acquisitions we may decide to pursue. We will likely seek to sell additional equity and/or debt securities. We cannot assure you that the sale of such securities will be available in amounts or on terms acceptable to us, if at all. If our board determines to sell additional shares of common stock or other debt or equity securities, a material amount of dilution may cause the market price of the common stock to decline. On September 26, 2013, based on market conditions, pricing expectations, and after discussions with the underwriters, we withdrew and terminated our previously announced proposed public offering of 16,700,000 shares of common stock. On September 17, 2015, based on volatility and the unfavorable direction of the stock markets and the price of our common stock, we withdrew and terminated an exchange offer of common stock for Series A and Series B preferred stock.

***We may not be able to sell hotels on favorable terms.***

Over the past five years we have sold 68 hotels, and we have 16 hotel properties held for sale as of December 31, 2015. We may not be able to sell such hotels on favorable terms, and such hotels may be sold at a loss. As with acquisitions, we face competition for buyers of our hotel properties. Other sellers of hotels may have the financial resources to dispose of their hotels on unfavorable terms that we would be unable to accept. If we cannot find buyers for any properties that are designated for sale, we will not be able to implement our disposition strategy. In the event that we cannot fully execute our disposition strategy or realize the benefits therefrom, we may not be able to fully execute our growth strategy.

***We face risks associated with the use of debt, including refinancing risk.***

We may not be able to successfully extend, refinance, or repay our debt due to a number of factors, including decreased property valuations, limited availability of credit, tightened lending standards, or deteriorating economic conditions, which could make it more difficult for us to obtain future credit facilities or loans on terms similar to the terms of our current credit facilities and loans or at all.

***While we are in arrears on preferred stock dividends, we are restricted in our ability to pay any dividend on or repurchase our common stock.***

Commencing with dividends due on our preferred stock on December 31, 2013, we suspended the payment of dividends on our Series A preferred stock, Series B preferred stock, and Series C convertible preferred stock to preserve capital and improve liquidity. Further, the Company cannot declare or pay a dividend on our common stock as long as any shares of our Series A preferred stock, Series B preferred stock, and Series C convertible preferred stock remain outstanding, unless all undeclared and unpaid dividends for all prior dividend periods have been paid or are contemporaneously declared and paid in full on our preferred stock. In addition, while we are in arrears in the payment of preferred stock dividends, we may not redeem, purchase, or acquire any shares of our common stock or other capital stock ranking junior to the preferred stock, other than for limited exceptions. These restrictions limit our ability to manage our capital resources generally and, specifically, to return capital to our common stockholders, and may adversely effect the value of an investment in our common stock.

Holder of the Series A preferred stock and Series B preferred stock generally have no voting rights. However, if dividends on the Series A preferred stock are in arrears for six consecutive months or nine months (whether or not consecutive) in any twelve-month period or dividends on the Series B preferred stock are in arrears for six or more quarterly periods (whether or not consecutive), holders of the Series A and Series B preferred stock, voting together as a single class with all series of preferred stock for which like voting rights are exercisable, will be entitled to elect two directors. Until all such dividend arrearages and dividends for the then current period have been paid, at each annual meeting the holders of Series A preferred stock and Series B preferred stock, voting as one group, will be entitled to elect two directors to serve until the next annual meeting. The terms of the directors will earlier terminate within twelve months after all dividend arrearages have been paid. At the Company's annual meeting on June 10, 2015, holders of Series A preferred stock and Series B preferred stock, voting as one class, elected two directors.

As discussed further in the Subsequent Events footnote to the consolidated financial statements, on March 16, 2016, the Company issued notices to redeem the Series A and Series B preferred stock on April 15, 2016 at their contractual liquidation preferences plus all accrued and unpaid dividends through the redemption date and the funds to complete the redemption were placed into escrow. With notice given and the redemption funds deposited in escrow, all rights of the holders of the Series A and Series B preferred stock terminated, except the right to receive the redemption price.

***If we are unable to maintain compliance with Nasdaq's listing requirements, our common stock, Series A preferred stock, and Series B preferred stock could be delisted from the Nasdaq Global Market, which would negatively impact our liquidity, our stockholders' ability to sell shares, and our ability to raise capital.***

Our common stock, Series A preferred stock, and Series B preferred stock are currently listed for trading on the Nasdaq Global Market. We must satisfy Nasdaq's continued listing requirements, including, among other things, a market value of publicly held shares of common stock (excluding shares of common stock held by our executive officers, directors, and 10% or more shareholders) of at least \$5 million, a minimum common stockholders' equity of \$10 million, and a minimum bid price for our common stock of \$1.00 per share, or risk delisting.

On November 9, 2015, the Company received notification from the Nasdaq Listings Qualification Department of the Nasdaq that for the previous 30 consecutive business days, the market value of publicly held shares ("MVPHS") of the Company's common stock had closed below the minimum \$5.0 million requirement for continued inclusion on the Nasdaq Global Market pursuant to Nasdaq Listing Rule 5450(b)(1)(C). The Company was provided 180 calendar days, or until May 9, 2016, to regain compliance with the minimum MVPHS requirement. In accordance with Nasdaq Listing Rule 5810(c)(3)(D), the Company can regain compliance if at any time during the 180-day period the closing MVPHS is at least \$5 million for a minimum of 10 consecutive business days. In the event the Company does not regain compliance with the MVPHS requirement prior to May 9, 2016, the common stock will be subject to delisting.

As of March 18, 2016, the Company has 4,941,878 shares of common stock outstanding. Under the Nasdaq listing rules, 1,529,721 shares of the Company's common stock (31% of the outstanding common stock) that are held directly or indirectly by officers, directors, or 10% beneficial owners of the total shares outstanding are not

considered publicly held shares for purposes of calculating MVPHS. Based on a March 18, 2016 closing common stock price of \$1.49, the Company's MVPHS is \$5.08 million, in excess of the Nasdaq required value of \$5.0 million. However, this value has not currently been maintained for the required minimum 10 consecutive business days.

A delisting of our common stock from the Nasdaq Global Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital.

***We cannot assure you that we will qualify, or remain qualified, as a REIT.***

We currently are taxed as a REIT, and we expect to qualify as a REIT for future taxable years, but we cannot assure you that we will remain qualified as a REIT. If we fail to remain qualified as a REIT, all of our earnings will be subject to federal income taxation, which will reduce the amount of cash available for distribution to our stockholders, and we will not be required to distribute our income to our stockholders.

***We may record additional impairment charges on our properties which will negatively impact our results of operations.***

We analyze our assets for impairment when events or circumstances occur that indicate an asset's carrying value may not be recoverable. For impaired assets, we record an impairment charge equal to the excess of the property's carrying value over its fair value. Our operating results for 2015, 2014, and 2013 include \$3.7 million, \$2.9 million, and \$7.1 million, respectively, of total impairment charges related to our hotels. Factors such as increased local competition, age and condition of hotels, and national and local declines in the economy may result in additional impairment charges, which will negatively effect our results of operations. We can provide no assurance that any impairment loss recognized would not be material to our results of operations.

***Our TRS lessee structure subjects us to the risk of increased operating expenses.***

Our hotel management agreements require us to bear the operating risks of our hotel properties. Our operating risks include not only changes in hotel revenue and changes in the TRS's ability to pay the rent due under the leases, but also increased operating expenses, including, among other things:

- wage and benefit costs;
- repair and maintenance expenses;
- energy costs;
- property taxes;
- insurance costs; and
- other operating expenses.

Any decreases in hotel revenue or increases in operating expenses could have a material adverse effect on our earnings and cash flow.

***Our debt service obligations could adversely effect our operating results, may require us to liquidate our properties, and could limit our ability to make distributions to our stockholders.***

We seek to maintain a total stabilized debt level of no more than 70% of our aggregate property investment at cost. We, however, may change or eliminate this target at any time without the approval of our stockholders. In the future, we and our subsidiaries may incur substantial additional debt, including secured debt. Incurring such debt could subject us to many risks, including the risks that:

- our cash flow from operations will be insufficient to make required payment of principal and interest;
- we may be more vulnerable to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of our cash flow from operations to the repayment of our debt, thereby reducing the cash available for distribution to our stockholders, funds available for operations and capital expenditures, future investment opportunities, or other purposes;

- the terms of any refinancing may not be as favorable as the terms of the debt being refinanced; and
- the use of leverage could adversely effect our stock price and our ability to make distributions to our stockholders.

If we violate covenants in our indebtedness agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on favorable terms, if at all. Our Great Western Bank and certain of our GE Franchise Finance Commercial LLC (“GE”) facilities contain cross-default provisions which would allow Great Western Bank and GE to declare a default and accelerate our indebtedness to them if we default on certain other loans, and such default would permit that lender to accelerate our indebtedness under any such loan.

Approximately \$2.7 million of the Company’s total debt is currently scheduled to mature in 2016 and approximately \$43.3 million currently scheduled to mature in 2017 pursuant to the notes and mortgages evidencing such debt. Because we do not expect to have sufficient funds from operating activities to repay our debt at maturity, we intend to repay a portion of this debt with net proceeds from the sale of hotels and refinance the balance of this debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on refinancings, increases in interest expense could adversely effect our cash flow, and, consequently, our cash available for distribution to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of our hotel properties on disadvantageous terms, potentially resulting in losses adversely effecting cash flow from operating activities. In addition, we may place mortgages on our hotel properties to secure our lines of credit or other debt. To the extent we cannot meet these debt service obligations, we risk losing some or all of those properties to foreclosure. Additionally, our debt covenants could impair our planned strategies and, if violated, result in a default of our debt obligations.

Higher interest rates could increase our debt service requirements and could reduce the amounts available for distribution to our stockholders, as well as reduce funds available for our operations, future investment opportunities, or other purposes. We may obtain in the future one or more forms of interest rate protection—in the form of swap agreements, interest rate cap contracts, or similar agreements—to “hedge” against the possible negative effects of interest rate fluctuations. However, we cannot assure you that any hedging will adequately mitigate the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations. In addition, we may be subject to risks of default by hedging counterparties. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable.

***Our ability to make distributions on our common and preferred stock is subject to fluctuations in our financial performance, operating results, and capital improvement requirements.***

As a REIT, we generally are required to distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction, to our stockholders. Downturns in our operating results and financial performance or unanticipated capital improvements to our hotel properties may effect our ability to declare or pay distributions to our stockholders. Further, we may not generate sufficient cash in order to fund distributions to our stockholders, which may require us to sell assets or borrow money to satisfy the REIT distribution requirements.

Among the factors which could adversely effect our results of operations and our distributions to stockholders are reduced net operating profits or operating losses, increased debt service requirements, and capital expenditures at our hotel properties. Among the factors which could reduce our net operating profits are decreases in hotel property revenue and increases in hotel property operating expenses. Hotel property revenue can decrease for a number of reasons, including increased competition from a new supply of rooms and decreased demand for rooms. These factors can reduce both occupancy and room rates at our hotel properties.

The timing and amount of distributions are at the sole discretion of our Board of Directors, which will consider, among other factors, our actual results of operations, debt service requirements, capital expenditure requirements for our properties, and our operating expenses. We suspended our quarterly common stock dividend in March 2009 and our monthly and quarterly preferred stock dividends at the end of 2013 to preserve our capital and improve liquidity.

***We have restrictive debt covenants that could adversely effect our ability to run our business.***

We file quarterly loan compliance certificates with certain of our lenders. Weakness in the economy and the lodging industry at large may result in non-compliance with our loan covenants. Such non-compliance with our loan covenants may result in our lenders restricting the use of our operating funds for capital improvements to our existing hotels, including improvements required by our franchise agreements, or calling the debt. We cannot assure you that our loan covenants will permit us to maintain our business strategy.

***Our restrictive debt covenants may jeopardize our tax status as a REIT.***

To maintain our REIT status, we generally must distribute at least 90% of our REIT taxable income to our stockholders annually. In addition, we are subject to a 4% non-deductible excise tax if the actual amount distributed to shareholders in a calendar year is less than a minimum amount specified under federal income tax laws. In the event we do not comply with our debt service obligations, our lenders may limit our ability to make distributions to our shareholders, which could adversely effect our REIT status.

***Operating our hotels under franchise agreements could adversely effect distributions to our shareholders.***

At December 31, 2015, 39 of our hotels operate under third party franchise agreements and we are subject to the risks of concentrating our hotel investments in several franchise brands. These risks include reductions in business following negative publicity related to any one of our particular brands. Risks associated with our brands could adversely effect our lease revenues and the amounts available for distribution to our shareholders.

The maintenance of the franchise licenses for our hotels is subject to our franchisors' operating standards and other terms and conditions. Our franchisors periodically inspect our hotels to ensure that we and the TRS follow their standards. Failure to maintain these standards or other terms and conditions could result in a franchise license being canceled. As a condition of our continued holding of a franchise license, a franchisor could possibly require us to make capital expenditures, even if we do not believe the capital improvements are necessary or desirable or will result in an acceptable return on our investment. Nonetheless, we may risk losing a franchise license if we do not make franchisor-required capital expenditures.

If a franchisor terminates the franchise license, we may try either to obtain a suitable replacement franchise or to operate the hotel without a franchise license. The loss of a franchise license could materially and adversely effect the operations or the underlying value of the hotel because of the loss of associated name recognition, marketing support, and centralized reservation systems provided by the franchisor. Loss of a franchise license for several of our hotels could materially and adversely effect our revenue. This loss of revenue could, therefore, also adversely effect our cash available for distribution to shareholders.

***Our inability to obtain financing could limit our growth.***

Our debt service obligations and distribution requirements limit our ability to fund capital expenditures, acquisitions, and hotel development through retained earnings. Our ability to grow through acquisitions or development of hotels will be limited if we cannot obtain debt or equity financing.

Neither our articles of incorporation nor our bylaws limit the amount of debt we can incur. Our Board of Directors can implement and modify a debt limitation policy without shareholder approval. We cannot assure you that we will be able to obtain additional equity financing or debt financing or that we will be able to obtain any financing on favorable terms.

***Joint venture investments could be adversely effected by our lack of sole decision-making authority, our reliance on a co-venturer's financial condition and disputes between us and our co-venturers.***

We may co-invest in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such event, we would not be in a position to exercise sole decision-making authority regarding the

property, partnership, joint venture or other entity. Investments in partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Investments in joint ventures may require that we provide the joint venture entity with the right of first offer or right of first refusal to acquire any new property we consider acquiring directly. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by, or disputes with, partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. We may also, in certain circumstances, be liable for the actions of our third-party partners or co-venturers. For example, we may be required to guarantee indebtedness incurred by a partnership, joint venture or other entity for the purchase or renovation of a hotel property. Such a guarantee may be on a joint and several basis with our partner or co-venturer in which case we may be liable in the event such party defaults on its guaranty obligation.

***Our business could be disrupted if we need to find a new manager upon termination of an existing management agreement.***

If a hotel manager that we engage fails to materially comply with the terms of the management agreement, we have the right to terminate the management agreement. Upon termination, we would have to find another manager to manage the relevant properties. We cannot operate the hotels directly due to federal income tax restrictions. We may not be able to find another manager, or that, if another manager were found, we would be able to enter into a new management agreement favorable to us. In addition, any new manager may operate other hotels that may compete with our hotels or divert attention away from the management of our hotels and may not be successful in managing our hotels. Our franchisors may require us to make substantial capital improvements to the hotels prior to their approval, if required, of a new manager. There would be disruption during any change of hotel management that could adversely effect our operating results and reduce our distributions to our shareholders.

***Geographic concentration of our hotels will make our business vulnerable to economic downturns in the Midwestern and Eastern United States.***

Most of our legacy hotels are located in the Midwestern and Eastern United States. Economic conditions in the Midwestern and Eastern United States will significantly effect our revenues and the value of our hotels. Business layoffs or downsizing, industry slowdowns, changing demographics, and other similar factors may adversely effect the economic climate in these areas. For example, the federal government shutdown in October 2013 impacted the operating results of the hotels we then owned in Virginia, Pennsylvania, and Maryland. Any resulting oversupply or reduced demand for hotels in the Midwestern and Eastern United States and our markets in particular would therefore have a disproportionately negative impact on our revenues and limit our ability to make distributions to stockholders.

***Unanticipated expenses and insufficient demand for hotels we acquire in new geographic markets could adversely effect our profitability and our ability to make distributions to our stockholders.***

We may develop or acquire hotels in geographic areas in which our management may have little or no operating experience and in which potential customers may not be familiar with our franchise brands. As a result, we may have to incur costs relating to the opening, operation and promotion of those new hotel properties that are substantially greater than those incurred in other areas. These hotels may attract fewer customers than our existing hotels, while at the same time, we may incur substantial additional costs with these new hotel properties. Unanticipated expenses and insufficient demand at a new hotel property, therefore, could adversely effect our profitability and our ability to make distributions to our stockholders.

***An industry downturn could adversely effect our results of operations.***

If room supply outpaces demand, our operating margins may deteriorate and we may be unable to execute our business plan, which could adversely effect our results of operation. In addition, if this trend continues, we may be unable to continue to meet our debt service obligations or to obtain necessary additional financing.

***Our borrowing costs are sensitive to fluctuations in interest rates.***

At December 31, 2015, after considering our interest rate swaps, we have \$29.5 million in total debt with variable rates and we may enter into new credit facilities or loans where the debt accrues interest at floating rates, or we may refinance debt that currently accrues interest at lower fixed rates. Higher interest rates could increase debt service requirements on any floating rate debt we incur in the future, including any borrowings under new credit facilities or loans. Any borrowings under new credit facilities or loans having floating interest rates may increase due to market conditions. Additionally, our debt service requirements may increase if we have to refinance our fixed rate debt with debt accruing interest at a higher rate. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable. We could be required to liquidate one or more of our hotel investments at times which may not permit us to receive an attractive return on our investments in order to meet our debt service obligations.

***We depend on key personnel.***

We depend on the efforts and expertise of our executive officers to drive our day-to-day operations and strategic business direction. The loss of any of their services could have an adverse effect on our operations. Our ability to replace key individuals may be difficult because of the limited number of individuals with the breadth of skills and experience needed to excel in the hotel industry. There can be no assurance that we would be able to hire, train, retain, or motivate such individuals.

**Risks Related to the Hotel Industry**

***Our ability to make distributions to our shareholders may be effected by factors in the hotel industry that are beyond our control.***

*Operating Risks*

Our hotels are subject to various operating risks found throughout the hotel industry. Many of these risks are beyond our control. These include, among other things, the following:

- competitors with substantially greater marketing and financial resources than us;
- over-building in our markets, which adversely effects occupancy and revenues at our hotels;
- dependence on business and commercial travelers and tourism;
- terrorist incidents which may deter travel;
- increases in hotel operating costs, energy costs, airline fares and other expenses, which may effect travel patterns and reduce the number of business and commercial travelers and tourists; and
- adverse effects of general, regional and local economic conditions.

These factors could adversely effect the amount of rent we receive from leasing our hotels and reduce the net operating profits of the TRS, which in turn could adversely effect our ability to make distributions to our shareholders. Decreases in room revenues of our hotels will result in reduced operating profits for the TRS and decreased lease revenues to our company under our current percentage leases with the TRS.

*Competition and Financing for Acquisitions*

We compete for investment opportunities with entities that have substantially greater financial resources than we do. These entities generally may be able to accept more risk than we can manage wisely. This competition may generally limit the number of suitable investment opportunities offered to us. This competition may also increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire new properties on attractive terms. Additionally, current economic conditions present difficult challenges to obtaining financing for acquisitions.



### *Seasonality of Hotel Business*

Historically, as a result of the geographic areas in which we operate, the operations of our hotels have been seasonal in nature. Generally, occupancy rates, revenue, and operating income have been greater in the second and third quarters of the calendar year than in the first and fourth quarters, with the exception of our hotels located in Florida, which experience peak demand in the first and fourth quarters of the year. The results of the hotels acquired in October 2015, because of their locations and scale, are expected to be less seasonal in nature than our legacy portfolio of assets.

### *Investment Concentration in Particular Segments of Single Industry*

Our entire business is hotel-related. Although we intend to invest in upper midscale and upscale properties in the future, our current hotel portfolio is concentrated in midscale and economy hotel properties. Therefore, a downturn in the hotel industry in general and the economy and midscale segments in particular will have a material adverse effect on our revenues and amounts available for distribution to our shareholders.

### *Capital Expenditures*

Our hotels have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. The franchisors of our hotels also require periodic capital improvements as a condition of keeping the franchise licenses. The costs of all of these capital improvements could adversely effect our financial condition and reduce the amounts available for distribution to our shareholders. These renovations may give rise to the following risks:

- possible environmental problems;
- construction cost overruns and delays;
- a possible shortage of available cash to fund renovations and the related possibility that financing for these renovations may not be available to us on affordable terms; and
- uncertainties as to market demand or a loss of market demand after renovations have begun.

### ***In the past, economic trends, terrorist acts, and military action have adversely effected the hotel industry generally, and similar future events could adversely effect the industry in the future.***

Terrorist attacks and the after-effects (including the prospects for more terror attacks in the United States and abroad) have, in the past, substantially reduced business and leisure travel and lodging industry Revenue per Available Room (“RevPAR”) generally. We cannot predict the extent to which these factors will directly or indirectly impact your investment in our common stock, the lodging industry or our operating results in the future. Declining RevPAR at our hotels would reduce our net income and restrict our ability to fund capital improvements at our hotels and our ability to make distributions to stockholders necessary to maintain our status as a REIT. Additional terrorist attacks, acts of war or similar events could have further material adverse effects on the markets on which shares of our stock will trade, as well as on the lodging industry in general and our operations in particular.

### ***Uninsured and underinsured losses and our ability to satisfy our obligations could adversely effect our operating results and our ability to make distributions to our stockholders.***

We intend to maintain comprehensive insurance on each of our hotel properties, including liability, fire, and extended coverage, of the type and amount we believe are customarily obtained for or by hotel owners. There are no assurances that current coverage will continue to be available at reasonable rates. Various types of catastrophic losses, like earthquakes and floods, or losses from foreign or domestic terrorist activities, may not be insurable or may not be economically insurable. Initially, we do not expect to obtain terrorism insurance on our hotel properties because it is costly. Lenders may require such insurance and our failure to obtain such insurance could constitute a default under loan agreements. Depending on our access to capital, liquidity and the value of the properties securing the effected loan in relation to the balance of the loan, a default could reduce our net income and limit our ability to obtain future financing.

In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed property.

***The hotel business is capital intensive, and our inability to obtain financing could limit our growth, and if we do obtain it, it may be more expensive which could still limit our growth.***

Our hotel properties will require periodic capital expenditures and renovation to remain competitive. Acquisitions or development of additional hotel properties will require significant capital expenditures. The lenders under some of the mortgage debt that we will assume will require us to set aside varying amounts each year for capital improvements at our hotels. We may not be able to fund capital improvements or acquisitions solely from cash provided from our operating activities because we must distribute at least 90% of our REIT taxable income, excluding net capital gains, each year to maintain our REIT tax status. Consequently, we rely upon the availability of debt or equity capital to fund hotel acquisitions and improvements. As a result, our ability to fund capital expenditures, acquisitions or hotel development through retained earnings is very limited. Our ability to grow through acquisitions or development of hotels will be limited if we cannot obtain satisfactory debt or equity financing which will depend on market conditions. Neither our charter nor our bylaws limits the amount of debt that we can incur. However, we cannot assure you that we will be able to obtain additional equity or debt financing or that we will be able to obtain such financing on favorable terms.

***Noncompliance with governmental regulations could adversely effect our operating results.***

#### *Environmental Matters*

Our hotel properties are subject to various federal, state, and local environmental laws. Under these laws, courts and government agencies have the authority to require the owner of a contaminated property to clean up the property, even if the owner did not know of or was not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated. In addition to the costs of cleanup, contamination can effect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral.

Under these environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, like a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment. Furthermore, court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos while staying in a hotel may seek to recover damages if he suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities at a property. One example is laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

Our Company could be responsible for the costs discussed above if it found itself in one or more of these situations. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could effect the funds available for distribution to our shareholders. To determine whether any costs of this nature might be required, we commissioned Phase I environmental site assessments, or "ESAs", before we acquired our hotels, and at certain times have commissioned new ESAs for certain of our hotels in conjunction with a refinancing of the debt obligations of those hotels. These studies typically included a review of historical information and a site visit, but not soil or groundwater testing. We obtained the ESAs to help us identify whether we might be responsible for cleanup costs or other costs in connection with our hotels. The ESAs on our hotels did not reveal any environmental conditions that are likely to have a material adverse effect on our business, assets, results of operations, or liquidity. However, ESAs do not always identify all potential problems or environmental liabilities. Consequently, we may have material environmental liabilities of which we are unaware.

## *Americans with Disabilities Act and Other Changes in Governmental Rules and Regulations*

Under the Americans with Disabilities Act of 1990, or ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers and non-compliance could result in the U.S. government imposing fines or in private litigants obtaining damages. If we were required to make substantial modifications to our hotels, whether to comply with the ADA or other changes in governmental rules and regulations, our ability to make distributions to our shareholders and meet our other obligations could be adversely effected.

### **General Risks Related to the Real Estate Industry**

***Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.***

Because real estate investments are relatively illiquid, our ability to promptly sell one or more hotel properties or investments in our portfolio in response to changing economic, financial and investment conditions may be limited. The real estate market is effected by many factors that are beyond our control, including:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of God, including earthquakes, floods and other natural disasters and acts of war or terrorism, including the consequences of terrorist acts such as those that occurred on September 11, 2001, which may result in uninsured losses.

We cannot predict whether we will be able to sell any hotel property or investment for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel property or loan.

We may be required to expend funds to correct defects or to make improvements before a hotel property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a hotel property, we may agree to lock-out provisions that materially restrict us from selling that hotel property for a period of time or impose other restrictions, such as limitation on the amount of debt that can be placed or repaid on that hotel property. These facts and any others that would impede our ability to respond to adverse changes in the performance of our hotel properties could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to stockholders.

***Our hotels may contain or develop harmful environmental challenges, such as mold or bed bugs, which could lead to liability for adverse health effects and costs of remediating the problem.***

Bed bug infestation can cause adverse health effects, including skin rashes, psychological effects and allergic symptoms. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or bed bugs at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or remove the bed bugs from the effected property, which would reduce our cash available for distribution. In addition, the presence of significant mold or bed bugs could expose us to liability from our guests, employees or our management companies and others if property damage or health concerns arise.

### **Risks Related to our Organization and Structure**

***Our two largest shareholders hold significant voting power and have the right to designate seven of our nine directors, which provides the shareholders with significant power to influence our business and affairs.***

Following the equity transactions discussed in the Subsequent Events footnote to the consolidated financial statements, Real Estate Strategies, L.P. (“RES”) and its affiliates hold 49% and SREP III Flight-Investco, L.P. (“SREP”) and its affiliates hold 42.6% of the combined voting power of all Condor voting stock. RES and SREP each have a contractual preemptive right, but not the obligation, to purchase up to their pro rata share (based on their ownership on a fully diluted basis) of any equity securities we offer in future offerings on the same terms as other investors. RES has the right to appoint four directors to our board of directors and SREP has the right to appoint three directors to our board of directors. As long as the Series D convertible preferred stock is outstanding, the holders of the shares, which include RES and SREP, have the right to vote separately as a class to approve certain significant corporate events, including the merger, consolidation, liquidation, or sale of substantially all of the assets of the Company or the sale by the Company of common stock or securities convertible into common stock equal to 20% or more of the outstanding common stock or voting stock.

By virtue of their voting power and board designation rights, preemptive right to purchase additional equity securities in future stock offerings and approval rights, RES and SREP, collectively and separately, have the power to significantly influence our business and affairs and the outcome of matters required to be submitted to shareholders for approval, including the election of our directors, amendments to our charter, mergers, or sales of assets. Their influence over our business and affairs may not be consistent with the interests of some or all of our shareholders and might negatively affect the market price of our common stock.

***The holders of the Series D convertible preferred stock have rights senior to holders of common stock and under certain circumstances may require sale of assets or the company to fully liquidate.***

RES and SREP, our two largest shareholders, own all of the issued and outstanding shares our Series D convertible preferred stock. The Series D preferred stock ranks senior to our common stock and any other preferred stock issuances and receives preferential cumulative cash dividends at a rate of 6.25% annually per annum of the \$10.00 face value per share. Dividends on the Series D preferred stock accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared, and whether or not such dividends are prohibited by agreement.

Whenever the dividends on the Series D convertible preferred stock are in arrears for four consecutive quarters, then upon notice by holders in the aggregate not less than 40% of the outstanding Series D preferred stock, Condor will (i) take all appropriate action reasonably within its means to maximize the assets legally available for paying such dividends and to monetize such assets (for example, but without limiting the generality of the foregoing, by selling or liquidating all or some of the Company’s assets or by selling the Company as a going concern), (ii) pay out of all such assets legally available (including any proceeds from any sale or liquidation of such assets) the maximum possible amount of such unpaid dividends, and (iii) thereafter, at any time and from time to time when additional assets of the Company (including any proceeds from any sale or liquidation of such assets) become legally available to pay such unpaid dividends, pay such remaining unpaid dividends until all dividends accumulated on the Series D preferred stock have been fully paid.

If a qualified offering of common stock (defined as a single offering of common stock of at least \$50 million or up to three offerings in the aggregate of at least \$75 million, with certain minimum prices per share) has not occurred on or before March 31, 2021, holders that hold in the aggregate not less than 40% of the outstanding shares of the Series D preferred stock have the right to elect to have the Company fully liquidate in a commercially reasonable manner as determined by the Board of Directors to provide for liquidation distributions to the holders of the Series D preferred stock in an amount per share of Series D preferred stock equal to \$14.00 in cash plus accrued and unpaid dividends. Once this right has been exercised and the Company has been notified, the dividend rate on the Series D preferred stock after March 31, 2021 will increase from 6.25% per annum to 12.5% per annum

***Our failure to qualify as a REIT under the federal tax laws would result in adverse tax consequences.***

*The federal income tax laws governing REITs are complex.*

We currently operate as a REIT under the federal income tax laws. The REIT qualification requirements are extremely complex and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we would be successful in operating so that we can qualify as a REIT. At any time, new laws, interpretations, or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT. We have not applied for or obtained rulings from the Internal Revenue Service that we will qualify as a REIT.

*Failure to qualify as a REIT would subject us to federal income tax.*

If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income. We might need to borrow money or sell assets in order to pay any such tax. If we cease to be a REIT, we no longer would be required to distribute most of our taxable income to our stockholders. Unless we were entitled to relief under certain federal income tax laws, we could not re-elect REIT status during the four calendar years after the year in which we failed to qualify as a REIT.

*Failure to make required distributions would subject us to tax.*

In order to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction, each year to our stockholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% non-deductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. As a result, for example, of differences between cash flow and the accrual of income and expenses for tax purposes, or of non-deductible expenditures, our REIT taxable income in any given year could exceed our cash available for distribution. In addition, to the extent we may retain earnings of the TRS in those subsidiaries, such amount of cash would not be available for distribution to our stockholders to satisfy the 90% distribution requirement. Accordingly, we may be required to borrow money or sell assets to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid federal corporate income tax and the 4% non-deductible excise tax in a particular year.

*The formation of the TRS increases our overall tax liability.*

The TRS is subject to federal and state income tax on its taxable income, which in the case of the TRS currently consists and generally will continue to consist of revenues from the hotel properties leased by the TRS, net of the operating expenses for such properties and rent payments to us. Accordingly, although our ownership of the TRS allows us to participate in the operating income from our hotel properties in addition to receiving rent, that operating income is fully subject to income tax. Such taxes could be substantial. The after-tax net income of the TRS is available for distribution to us.

We incur a 100% excise tax on transactions with the TRS that are not conducted on an arm's-length basis. For example, to the extent that the rent paid by the TRS exceeds an arm's-length rental amount, such amount potentially is subject to the excise tax. We intend that all transactions between us and the TRS will continue to be conducted on an arm's-length basis and, therefore, that the rent paid by the TRS to us will not be subject to the excise tax.

***Complying with REIT requirements may cause us to forego attractive opportunities that could otherwise generate strong risk-adjusted returns and instead pursue less attractive opportunities, or none at all.***

To continue to qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. Thus, compliance with the REIT requirements may hinder our

ability to operate solely on the basis of generating strong risk-adjusted returns on invested capital for our stockholders.

***Complying with REIT requirements may force us to liquidate otherwise attractive investments, which could result in an overall loss on our investments.***

To continue to qualify as a REIT, we must also ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total securities can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. If we fail to comply with these requirements at the end of any calendar quarter, we may be able to preserve our REIT status by benefiting from certain statutory relief provisions. Except with respect to a de minimis failure of the 5% asset test or the 10% vote or value test, we can maintain our REIT status only if the failure was due to reasonable cause and not to willful neglect. In that case, we will be required to dispose of the assets causing the failure within six months after the last day of the quarter in which we identified the failure, and we will be required to pay an additional tax of the greater of \$50,000 or the product of the highest applicable tax rate (currently 35%) multiplied by the net income generated on those assets. As a result, we may be required to liquidate otherwise attractive investments.

***Taxation of dividend income could make our common stock less attractive to investors and reduce the market price of our common stock.***

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely effect us or you as a stockholder. Since 2013, the maximum tax rate on dividend income for certain taxpayers has been at 20% for qualified dividends and 39.6% on non-qualified dividends (plus a 3.8% net investment income tax). Generally, dividends from REITs do not qualify for reduced dividend tax rates because, as a result of the dividends paid deduction to which REITs are entitled, REITs generally do not pay corporate level tax on income that they distribute to stockholders. As a result of that legislation, individual, trust, and estate investors could view stocks of non-REIT corporations as more attractive relative to shares of REITs than was the case previously because the dividends paid by non-REIT corporations are subject to lower tax rates for such investors.

***Provisions of our charter and substantial voting power held by two shareholders may limit the ability of a third party to acquire control of our company.***

In order to maintain our REIT qualification, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal income tax laws to include various kinds of entities) during the last half of any taxable year. Our articles of incorporation contain the ownership limitation, which prohibits both direct and indirect ownership of more than 9.9% of the outstanding shares of our common stock or 9.9% of any series of our preferred stock by any person, subject to several exceptions. Generally, any shares of our capital stock owned by affiliated owners will be added together for purposes of the ownership limitation.

Our articles of incorporation permit our board, in its sole discretion, to exempt a person from the 9.9% ownership limitation if the person provides representations and undertakings that enable our board to determine that granting the exemption would not result in the loss of our REIT qualification. Under the Internal Revenue Service rules, REIT shares owned by certain entities are considered owned proportionately by owners of the entities for REIT qualification purposes. RES and SREP each provided a letter at the time of the issuance of the Series D preferred stock that permitted our board to grant such an exemption. The stock ownership by RES and SREP, which was

permitted with our board's approval, represents such substantial voting power that it may limit the ability of a third party to acquire control of our company.

These ownership limitations may prevent an acquisition of control of our company by a third party without our board of directors' approval, even if our stockholders believe the change of control is in their best interests. Our charter authorizes our board of directors to issue shares of common stock and shares of preferred stock, and to set the preferences, rights and other terms of the preferred stock. Furthermore, our board of directors may, without any action by the stockholders, amend our charter from time to time to increase or decrease the aggregate number of shares of stock of any class or series of preferred stock that we have authority to issue. Issuances of additional shares of stock may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders' best interests.

***Our ownership limitation may prevent a shareholder from engaging in certain transfers of our capital stock.***

If anyone transfers shares in a way that would violate the ownership limitation described above or prevent us from continuing to qualify as a REIT under the federal income tax laws, we will consider the transfer to be null and void from the outset, and the intended transferee of those shares will be deemed never to have owned the shares. Those shares instead will be transferred to a trust for the benefit of a charitable beneficiary and will be either redeemed by our company or sold to a person whose ownership of the shares will not violate the ownership limitation. Anyone who acquires shares in violation of the ownership limitation or the other restrictions on transfer in our articles of incorporation bears the risk that he will suffer a financial loss when the shares are redeemed or sold if the market price of our stock falls between the date of purchase and the date of redemption or sale.

***We may be subject to the 100% prohibited transaction tax on the gain recognized on the hotels we sold.***

A REIT will incur a 100% tax on the net income derived from any sale or other disposition of property that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. We undertook specific disposition programs beginning in 2001 (that included the sale of 23 hotels through December 31, 2004) and 2008 (that included the sale of 87 hotels through December 31, 2015). We held the disposed hotels for an average period of 12.3 years and did not acquire the hotels for purposes of resale. We believe that such sales are not prohibited transactions. However, if the IRS would successfully assert that we held such hotels primarily for sale in the ordinary course of our business, the gain from such sales could be subject to a 100% prohibited transaction tax.

***The ability of our board of directors to change our major corporate policies may not be in your interest.***

Our board of directors determines our major corporate policies, including our acquisition, financing, growth, operations and distribution policies. Our board may amend or revise these and other policies from time to time without the vote or consent of our stockholders.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2. PROPERTIES

Our Company headquarters is located in Norfolk, Nebraska, with additional office space in Omaha, Nebraska. The following table sets forth certain information with respect to the hotels owned by us as of December 31, 2015:

<u>Location</u>	<u>Rooms</u>	<u>Location</u>	<u>Rooms</u>
<u>Florida</u>		<u>Montana</u>	
Key Largo, Key West Inn	40	Billings, Super 8	106
Jacksonville, Courtyard by Marriott (3)	120		
		<u>Nebraska</u>	
<u>Georgia</u>		Lincoln (Cornhusker), Super 8 (2)	133
Atlanta, Savannah Suites (1) (2)	164	O'Neill, Super 8 (2)	72
Atlanta, Hotel Indigo (3)	142		
		<u>North Carolina</u>	
<u>Indiana</u>		Shelby, Comfort Inn	76
Fort Wayne, Comfort Suites	127		
Lafayette, Comfort Suites	62	<u>Pennsylvania</u>	
Marion, Comfort Suites	62	Chambersburg, Comfort Inn (2)	63
South Bend, Comfort Suites	135	New Castle, Comfort Inn (2)	79
Warsaw, Comfort Inn & Suites	71		
		<u>South Carolina</u>	
<u>Iowa</u>		Greenville, Savannah Suites (2)	170
Burlington, Super 8	62		
Creston, Super 8	121	<u>South Dakota</u>	
Creston, Supertel Inn	41	Sioux Falls (Airport), Days Inn (1)	86
Iowa City, Super 8	84		
Keokuk, Super 8 (2)	61	<u>Tennessee</u>	
Mt. Pleasant, Super 8	55	Cleveland, Clarion (2)	59
Storm Lake, Super 8 (2)	59		
		<u>Texas</u>	
<u>Kansas</u>		San Antonio, Spring Hill Suites (3)	116
Pittsburg, Super 8 (2)	64		
		<u>Virginia</u>	
<u>Kentucky</u>		Culpeper, Quality Inn (2)	49
Danville, Quality Inn	63	Farmville, Comfort Inn	51
Glasgow, Comfort Inn (2)	60	Farmville, Days Inn	59
Harlan, Comfort Inn (1) (2)	61	Rocky Mount, Comfort Inn	61
<u>Louisiana</u>		<u>West Virginia</u>	
Bossier City, Days Inn (2)	176	Morgantown, Quality Inn	80
		Princeton, Quality Inn	51
<u>Maryland</u>			
Dowell, Hilton Garden Inn	100	<u>Wisconsin</u>	
Solomons, Quality Inn	60	Menomonie, Super 8	81
		Portage, Super 8 (2)	61
<u>Missouri</u>			
Kirksville, Super 8 (2)	61	Total Rooms	<u>3,504</u>

- (1) This property is subject to a long-term ground lease.
- (2) This property is considered held for sale at December 31, 2015.
- (3) This property was newly acquired in 2015.



All of our properties are encumbered by either our revolving credit agreement or by mortgage debt at December 31, 2015. Additional property information is found in Item 8 Schedule III of this Annual Report on Form 10-K.

### ITEM 3. LEGAL PROCEEDINGS

Various claims and legal proceedings arise in the ordinary course of business and may be pending against the Company and its properties. We are not currently involved in any material litigation, nor, to our knowledge, is any material litigation threatened against us. The Company has insurance to cover potential material losses and we believe it is not reasonably possible that such matters will have a material impact on our financial condition or results of operations.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY / RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Our common stock trades on the Nasdaq Global Market under the symbol "CDOR" The closing sales price for the common stock on March 18, 2016 was \$1.49 per share. The table below sets forth the high and low sales prices per share reported on the Nasdaq Global Market for the periods indicated:

	Condor Hospitality Trust, Inc. Common Stock			
		High		Low
<b>2014</b>				
First quarter	\$	4.25	\$	1.43
Second quarter	\$	2.23	\$	1.17
Third quarter	\$	3.17	\$	1.55
Fourth quarter	\$	2.89	\$	1.73
<b>2015</b>				
First quarter	\$	2.27	\$	1.42
Second quarter	\$	3.70	\$	1.61
Third quarter	\$	2.74	\$	0.80
Fourth quarter	\$	1.59	\$	1.00

#### Shareholder Information

As of March 18, 2016, the approximate number of holders of record of our common stock was 52. However, because the vast majority of our common shares are held by brokers and other institutions on behalf of shareholders, we believe that there are considerably more beneficial holders of our common shares than record holders.

#### Distribution Information

No dividends on common stock were paid in or related to 2015, 2014, or 2013. The actual amount of future dividends will be determined by the Board of Directors based on the actual results of operations, economic conditions, capital expenditure requirements, and other factors that the Board of Directors deems relevant.

Commencing with dividends due on our preferred stock on December 31, 2013, we suspended payment of dividends on our Series A preferred stock, Series B preferred stock, and Series C convertible preferred stock to preserve capital and improve liquidity. We cannot declare or pay a dividend on our common stock, as long as any shares of any class of our preferred stock remain outstanding, unless all undeclared and unpaid dividends for all prior periods have been paid or are contemporaneously declared and paid in full on our preferred stock.

As discussed further in the Subsequent Events footnote to the consolidated financial statements, on March 16, 2016, the Company issued notices to redeem the Series A and Series B preferred stock on April 15, 2016 at their contractual liquidation preferences plus all accrued and unpaid dividends through the redemption date and the funds to complete the redemption were placed into escrow

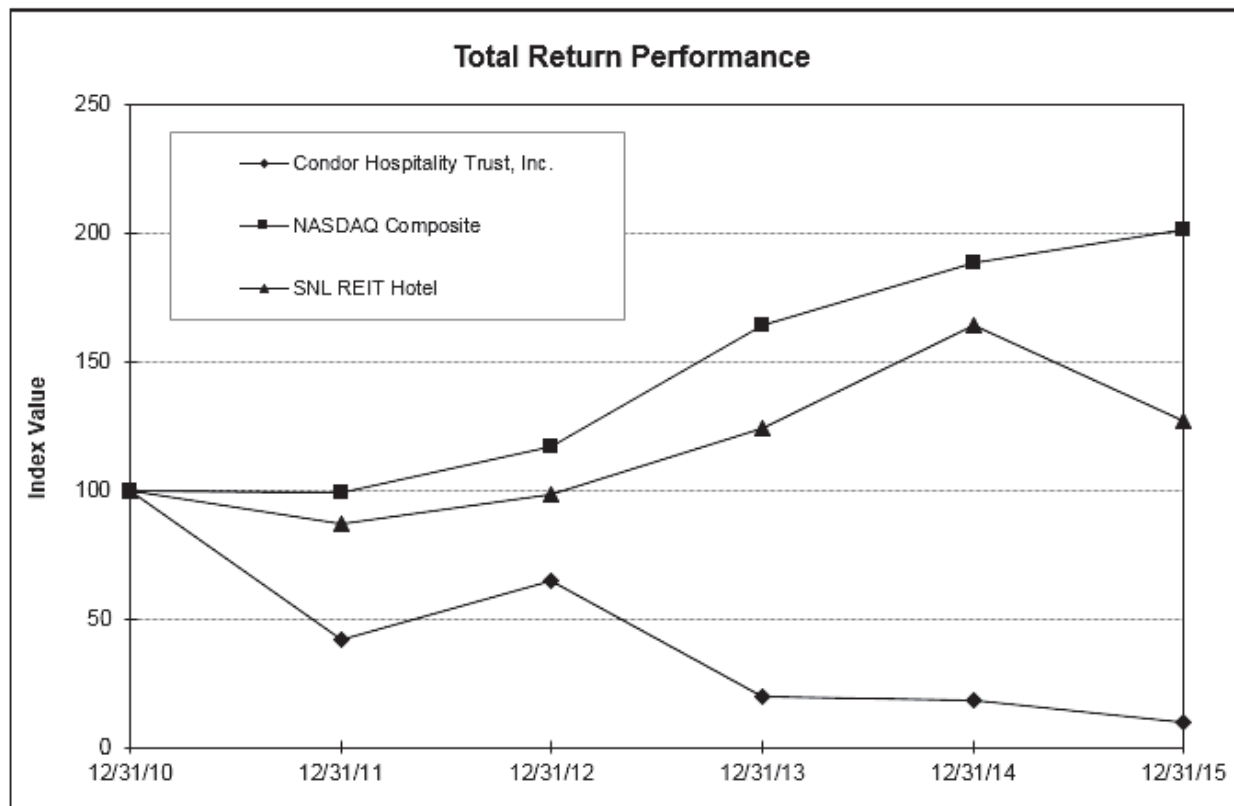
### **Shares Authorized for Issuance Under Equity Compensation Plans**

See Part III, Item 12 for a description of securities authorized for issuance under our 2006 Stock Plan.

### **Share Performance**

The following graph compares the yearly percentage change in the cumulative total shareholder return on our common stock for the period December 31, 2010 through December 31, 2015, with the cumulative total return on the SNL Securities Hotel REIT Index (“Hotel REITs Index”) and the Nasdaq Composite (“Nasdaq—Total US Index”) for the same period. The Hotel REIT Index is comprised of publicly traded REITs that focus on investments in hotel properties. The Nasdaq Composite is comprised of all United States common shares traded on the Nasdaq Stock Market. The comparison assumes a starting investment of \$100 on December 31, 2010 in our common stock and in each of the indices shown and assumes that all dividends are reinvested. The performance graph is not necessarily indicative of future investment performance.

## Condor Hospitality Trust, Inc.



<i>Index</i>	<i>Period Ending</i>					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Condor Hospitality Trust, Inc.	100.00	41.47	64.56	19.30	18.28	9.89
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL REIT Hotel	100.00	86.99	98.12	123.96	163.62	126.57

### ITEM 6. SELECTED FINANCIAL DATA

The following sets forth selected financial and operating data on a historical consolidated basis. The following information should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements and related notes thereto, appearing elsewhere in this document.

**As of and for the years ended December 31,  
In thousands, except share and per share data**

	2015	2014	2013	2012	2011
<b>Revenue</b>					
Room rentals and other hotel services	\$ 57,341	\$ 57,409	\$ 53,782	\$ 55,733	\$ 52,480
<b>Operating Expenses</b>					
Hotel and property operations	42,186	43,256	42,044	41,235	39,317
Depreciation and amortization	5,400	6,437	6,258	6,293	6,133
General and administrative	5,493	4,192	3,923	3,908	3,884
Acquisition and terminated transactions	684	-	713	240	124
Terminated equity transactions	246	76	1,050	-	-
Total operating expenses	54,009	53,961	53,988	51,676	49,458
<b>Operating income (loss)</b>	<b>3,332</b>	<b>3,448</b>	<b>(206)</b>	<b>4,057</b>	<b>3,022</b>
Net gain (loss) on dispositions of assets	4,802	1	(47)	(9)	1,133
Unrealized derivative gain (loss)	11,578	(14,430)	10,028	(247)	-
Other income	114	116	34	103	109
Interest expense	(5,445)	(7,019)	(5,399)	(5,054)	(5,762)
Loss on debt extinguishment	(213)	(158)	(458)	(138)	-
Impairment loss	(3,828)	(1,269)	(2,438)	(97)	(1,722)
Earnings (loss) from continuing operations before income taxes	10,340	(19,311)	1,514	(1,385)	(3,220)
Income tax expense	-	-	-	6,552	108
Earnings (loss) from continuing operations	10,340	(19,311)	1,514	(7,937)	(3,112)
Gain (loss) from discontinued operations, net of tax	3,982	3,052	(2,867)	(2,283)	(14,365)
<b>Net earnings (loss)</b>	<b>14,322</b>	<b>(16,259)</b>	<b>(1,353)</b>	<b>(10,220)</b>	<b>(17,477)</b>
(Earnings) loss attributable to noncontrolling interest	(1,197)	23	2	10	32
Net (loss) earnings attributable to controlling interests	13,125	(16,236)	(1,351)	(10,210)	(17,445)
Preferred stock dividends declared and undeclared	(3,632)	(3,452)	(3,349)	(3,169)	(1,474)
<b>Net earnings (loss) attributable to common shareholders</b>	<b>\$ 9,493</b>	<b>\$ (19,688)</b>	<b>\$ (4,700)</b>	<b>\$ (13,379)</b>	<b>\$ (18,919)</b>
Weighted average number of common shares - basic	4,886	3,897	2,890	2,885	2,872
Weighted average number of common shares - diluted	23,241	3,897	2,890	2,885	2,872
<b>Basic</b>					
Basic EPS from continuing operations	\$ 1.22	\$ (5.84)	\$ (0.64)	\$ (3.85)	\$ (1.59)
Basic EPS from discontinued operations	0.72	0.79	(0.99)	(0.79)	(5.00)
Total EPS Basic	<u>\$ 1.94</u>	<u>\$ (5.05)</u>	<u>\$ (1.63)</u>	<u>\$ (4.64)</u>	<u>\$ (6.59)</u>
<b>Diluted</b>					
Diluted EPS from continuing operations	\$ (0.15)	\$ (5.84)	\$ (0.64)	\$ (3.85)	\$ (1.59)
Diluted EPS from discontinued operations	0.15	0.79	(0.99)	(0.79)	(5.00)
Total EPS Diluted	<u>\$ -</u>	<u>\$ (5.05)</u>	<u>\$ (1.63)</u>	<u>\$ (4.64)</u>	<u>\$ (6.59)</u>
<b>Balance sheet data</b>					
Total investment in hotel properties, net	\$ 130,699	\$ 139,182	\$ 164,356	\$ 191,091	\$ 209,235
Cash and cash equivalents	\$ 4,870	\$ 173	\$ 45	\$ 891	\$ 279
Total assets	\$ 143,871	\$ 146,444	\$ 172,085	\$ 201,847	\$ 221,172
Total debt	\$ 87,536	\$ 92,687	\$ 118,045	\$ 132,821	\$ 165,845
Total equity	\$ 34,495	\$ 19,092	\$ 32,726	\$ 36,651	\$ 36,847

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

### **Overview**

Condor Hospitality Trust, Inc. is a self-administered REIT for federal income tax purposes that specializes in the investment and ownership of high quality select service, limited service, extended stay, and compact full service hotels. Substantially all of our operations are conducted through SLP and E&P, our operating partnerships, of which the Company is the sole general partner. As of December 31, 2015, the Company owned 42 hotels, representing 3,504 rooms, in 20 states.

Condor experienced a year of transition in 2015, marking an inflection point for the Company. The name change from Supertel Hospitality, Inc. to Condor Hospitality Trust, Inc. in July 2015 was just the first step in the Company's new strategic direction. Bill Blackham joined Condor as Chief Executive Officer in March and strengthened the management team with the hiring of Jonathan Gantt as Chief Financial Officer in the second half of the year. Condor continued the repositioning of its portfolio with the disposition of 17 legacy economy hotels and the acquisition of three premium select service hotels that are in line with the Company's acquisition strategy of acquiring high-quality assets flagged under leading brands. Additionally, the Company successfully eliminated near-term debt maturities and significantly improved its liquidity profile. With the aforementioned successes of 2015, Condor's management is excited about 2016 and is confident in its ability to achieve the mission of providing attractive total returns in the lodging sector to Condor's shareholders.

Condor remains positive on the outlook of the hospitality sector in the segments we target. Lodging fundamentals improved in 2015 with industry Revenue per Available Room ("RevPAR") growing by 6.3% during the year, according to Smith Travel Research. Most industry analysts forecast RevPAR growth at a slightly slower pace in 2016, generally between 5% - 5.5%. Condor management believes the sectors and segments it targets will see growth in line with these estimates. While many primary markets have a large influx of new supply, the markets Condor targets are experiencing less aggressive supply growth. This factor, combined with the possibility of positive economic growth, should enable our hotels to experience growth in Average Daily Rate ("ADR"), occupancy, and RevPAR in 2016.

We believe that the performance of the hotel industry is strongly correlated with the performance of the macro-economy. At the start of 2016, there is concern over the health and growth pace of the U.S. economy as investors and companies process mixed economic signals, political uncertainty in the U.S., and economic and geopolitical turbulence abroad. Barring any major disruption to the U.S. economy, we expect a continued improvement in lodging fundamentals, with a more tepid improvement in lodging fundamentals in 2016 than in 2015. The manner in which the economy will continue to grow, if at all, is not predictable and outside of our control. As a result, there can be no assurances that we will be able to grow our hotel revenue, ADR, occupancy, or RevPAR. Factors that might contribute to less than anticipated performance are detailed in "Item 1A. Risk Factors." Condor's management continually monitors the economic environment and works to adjust its strategy in order to maximize value and returns to shareholders.

## Hotel Property Portfolio Activity

### Acquisitions

During 2015, we acquired three wholly-owned premium select service hotel properties through three single-purpose bankruptcy remote entities 100% owned by SLP from affiliates of Peachtree Hotel Group II, LLC. A summary of these acquisitions and their funding is as follows (dollars in thousands):

Hotel	Acquisition date	Land	Building improvements and vehicle	Furniture and equipment	Total purchase price	Assumption of debt	Debt originated at acquisition	Issuance of SLP common units	Net cash
Hotel Indigo Atlanta, GA	10/2/2015	\$ 800	\$ 8,700	\$ 1,500	\$ 11,000	\$ -	\$ 5,000	\$ 150	\$ 5,850
Marriott Courtyard Jacksonville, FL	10/2/2015	2,100	11,050	850	14,000	-	10,100	150	3,750
Springhill Suites San Antonio, TX	10/1/2015	1,597	14,353	1,550	17,500	11,220	-	150	6,130
Total		<u>\$ 4,497</u>	<u>\$ 34,103</u>	<u>\$ 3,900</u>	<u>\$ 42,500</u>	<u>\$ 11,220</u>	<u>\$ 15,100</u>	<u>\$ 450</u>	<u>\$ 15,730</u>

The \$42.5 million purchase price was funded with the assumption of one loan with an aggregate outstanding principal balance of \$11.2 million and two newly originated GE loans totaling \$15.1 million. The remaining \$16.2 million was funded with \$14.9 million in cash, approximately \$0.8 million of borrowings from the Company's existing credit facility with Great Western Bank, and the issuance of operating units from SLP representing limited partnership interest in that entity. A total of 2,298,879 operating units in SLP were issued with a value of \$450,000.

There were no hotel acquisitions in 2014 or 2013.

## Dispositions

Pursuant to our disposition strategy, the following hotel sales were executed in 2015:

Date of sale	Location	Brand	Condor lender	Number of rooms	Gross proceeds (in thousands)
01/15/15	West Plains, MO	Super 8	Great Western	49	\$ 1,500
01/29/15	Green Bay, WI	Super 8	GE Capital	83	2,150
03/16/15	Columbus, GA	Super 8	GE Capital	74	900
03/19/15	Omaha, NE	Sleep Inn	Elkhorn Valley	90	2,939
04/01/15	Augusta, GA	Savannah Suites	GE Capital	172	3,400
04/01/15	Chamblee, GA	Savannah Suites	GE Capital	120	4,400
04/30/15	Batesville, AR	Super 8	Great Western	49	1,525
07/01/15	Ashland, KY	Days Inn	GE Capital	63	2,240
07/13/15	Alexandria, VA	Comfort Inn	Frontier Bank	150	12,000
07/13/15	Alexandria, VA	Days Inn	Frontier Bank	200	6,500
08/28/15	Manhattan, KS	Super 8	Great Western	85	3,200
10/06/15	Sheboygan, WI	Quality Inn	Great Western	59	2,300
10/14/15	Hays, KS	Super 8	Great Western	76	1,910
10/16/15	Glasgow, KY	Days Inn	GE Capital	58	1,825
10/21/15	Tomah, WI	Super 8	Great Western	65	1,350
11/03/15	Fayetteville, NC	Rodeway Inn	Unencumbered	120	2,600
12/22/15	Savannah, GA	Savannah Suites	GE Capital	160	4,000
			Total		<u>\$ 54,739</u>

Net proceeds, after expenses and debt repayment, totaled \$25.3 million in 2015. In 2014, 13 hotels with 1,265 rooms were sold for gross proceeds of \$22.3 million, and net proceeds, after expenses and debt repayment, of \$2.6 million. In 2013, 17 hotels with 1,549 rooms were sold for gross proceeds of \$22.0 million, and net proceeds, after expenses and debt repayment, of \$4.1 million.

Based on the criteria discussed in the footnotes to the consolidated financial statements, as of December 31, 2015, the Company had 16 hotels classified as held for sale. At the beginning of 2015, the Company had 12 hotels held for sale and during the year classified an additional 23 hotels as held for sale. Seventeen of these hotels were sold during 2015 and two of the hotels were reclassified as held for use in 2015 due to changes in the properties' market condition. If a hotel is considered held for sale as of the most recent balance sheet presented or was sold in any period presented, the hotel property and the debt it collateralizes are shown as held for sale in all periods presented.

As discussed in the footnotes to the consolidated financial statements, as of October 1, 2014 we adopted ASU 2014-08 which changes the criteria for reporting a discontinued operation such that only disposals representing a strategic shift in operations should be presented as discontinued operations subsequent to adoption. As a result of this adoption, only the operations of hotels meeting the criteria to be considered held for sale prior to October 1, 2014 are included in discontinued operations for all periods presented as no individual hotel disposition has a major effect on our operations or financial results.

## Operating Performance Metrics

The following table presents our RevPAR, ADR, and occupancy for our same store operations. The comparisons for same store operations include all of our hotels owned as of December 31, 2015 with the exception of the three hotels we acquired in October 2015 (39 hotels included in same store results, 23 of which are considered held for use ("HFU") and 16 of which are considered held for sale ("HFS")). All hotels included in same store operations were owned throughout each of the periods presented. The performance metrics for three hotels acquired in 2015 represent post-acquisition operations only and are separately presented.

	Year ended December 31,								
	2015			2014			2013		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Same store HFU	65.32%	\$ 75.10	\$ 49.06	67.23%	\$ 70.66	\$ 47.50	63.72%	\$ 69.62	\$ 44.36
Same store HFS	61.42%	50.09	30.77	65.62%	46.30	30.38	63.09%	45.81	28.90
Total same store	63.58%	\$ 64.34	\$ 40.91	66.51%	\$ 59.95	\$ 39.88	63.44%	\$ 59.07	\$ 37.48
Acquisitions	65.22%	\$ 116.48	\$ 75.97	-	\$ -	\$ -	-	\$ -	\$ -

In the same store HFU portfolio of hotels, 2015 RevPAR increased 3.3% from 2014, driven by an increase in ADR of 6.3% partially offset by a decrease of 2.8% in occupancy. In 2015, the Company focused on increasing ADR in light of an improving economy and increasing leisure and transient travel. This focus on improving ADR drove our slight decline in occupancy, which was also a result of significant ongoing renovations in our hotels in Indiana and West Virginia as well as changes in contract business at certain properties.

## Results of Operations

*Comparison of the year ended December 31, 2015 to the year ended December 31, 2014 (in thousands, except per share amounts)*

	Years ended December 31,							
	2015			2014			Continuing operations variance	
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total		
Revenue	\$ 57,341	\$ 4,296	\$ 61,637	\$ 57,409	\$ 14,969	\$ 72,378	\$ (68)	
Hotel and property operations expense	(42,186)	(3,127)	(45,313)	(43,256)	(11,545)	(54,801)	1,070	
Depreciation and amortization expense	(5,400)	-	(5,400)	(6,437)	(112)	(6,549)	1,037	
General and administrative expense	(5,493)	-	(5,493)	(4,192)	-	(4,192)	(1,301)	
Acquisition and terminated transactions expense	(684)	-	(684)	-	-	-	(684)	
Terminated equity transactions expense	(246)	-	(246)	(76)	-	(76)	(170)	
Net gain on dispositions of assets	4,802	2,993	7,795	1	2,749	2,750	4,801	
Unrealized derivative gain (loss)	11,578	-	11,578	(14,430)	-	(14,430)	26,008	
Other income	114	-	114	116	-	116	(2)	
Interest expense	(5,445)	(300)	(5,745)	(7,019)	(1,237)	(8,256)	1,574	
Loss on extinguishment of debt	(213)	-	(213)	(158)	(120)	(278)	(55)	
Impairment (loss) recovery	(3,828)	120	(3,708)	(1,269)	(1,652)	(2,921)	(2,559)	
Income tax expense	-	-	-	-	-	-	-	
<b>Net earnings (loss)</b>	<b>\$ 10,340</b>	<b>\$ 3,982</b>	<b>\$ 14,322</b>	<b>\$ (19,311)</b>	<b>\$ 3,052</b>	<b>\$ (16,259)</b>	<b>\$ 29,651</b>	

### Revenue

During 2015, revenue from continuing operations remained stable, decreasing by \$68 between the periods. Revenue from newly acquired properties in 2015 totaled \$2,611 and revenue from our other held for use assets increased \$1,127, largely driven by an improving economy and a mild winter in early 2015 which increased construction and special projects business at our properties. Revenue from held for sale and sold properties decreased by \$3,806 driven by property sales during the periods presented.



### *Expenses*

Hotel and property operations expense from continuing operations decreased by \$1,070, driven by declines resulting from sold hotels. The decrease in these expenses outpaced the decrease in revenue because of increases in ADR and because the legacy hotels that remain in our portfolio and our 2015 acquisitions have higher operating margins than the hotels that were sold during the period.

Interest expense from continuing operations and depreciation expense from continuing operations decreased by \$1,574 and \$1,037, respectively, between the periods as a result of a net decrease in the size of the Company's hotel portfolio. Additionally, interest expense was favorably impacted by a decrease in the weighted average interest rate on total debt outstanding between the periods, from 6.48% at December 31, 2014 to 5.31% at December 31, 2015, as a result of debt repaid upon the sale of properties and debt refinancings during 2015.

The \$1,301 increase in general and administrative expense was driven by increased compensation expense resulting from compensation arrangements put into place with the new management team in 2015 and severance accrued for management who left the Company during the year, as well as recruiting expenses incurred in relation to those transitions. Increased director and officer insurance premiums, increased travel, legal, and professional fees expense resulting from our name change and increased transactional activity during the year, and increased director's fees resulting from the increased size of our Board of Directors also contributed to this change.

Acquisition and terminated transaction costs will fluctuate period to period based on our acquisition activities. Acquisition costs typically consist of transfer taxes, legal fees, and other costs associated with acquiring a hotel property as well as transactions that were terminated during the year. The increase in these expenses in 2015 was a result of the three acquisitions consummated during the year as well as increased activity by management to review potential future transactions.

The \$246 of terminated equity transactions expense in 2015 consists of charges incurred in the preparation of an exchange offer commenced on August 6, 2015. This offer was withdrawn on September 17, 2015.

### *Impairment Losses*

In 2015, we incurred \$3,708 of impairment losses, all of which was included in continuing operations with the exception of net recovery of \$120 included in discontinued operations. In 2014, we incurred impairment losses totaling \$2,921, of which \$1,269 was in continuing operations and \$1,652 was in discontinued operations. All impairments recognized in both years related either to hotels held for sale or sold at some point during the year.

### *Dispositions*

In 2015, eight hotels were sold with gains totaling \$7,759 and nine hotels were sold with no gain. In 2014, five hotels were sold with gains totaling \$2,749 and eight hotels were sold with no gain.

### *Unrealized Derivative Gain (Loss)*

The change in unrealized derivative gain (loss) was driven by the change in fair value of the derivative liabilities for the current year compared to the year ended December 31, 2014. The fair value of the derivative liabilities decreased by an aggregate of \$11,578 during 2015 and increased by \$14,430 during 2014. The decrease in fair value in 2015 was primarily a result of a decrease in the Company's stock price in 2015, which in turn decreases the value assigned to the conversion feature of the Series C preferred stock and the outstanding common stock warrants.

### *Income Tax Expense*

As of December 31, 2015, a full valuation allowance continued to be recorded against the net deferred tax asset due to the uncertainty of realization because of historical operating losses. As such, no income tax expense or benefit was recorded for the year ended December 31, 2015. Management believes the combined federal and state income

tax rate for the TRS will be approximately 38% and income tax benefit or expense will vary based on the taxable earnings or loss of the TRS.

***Comparison of the year ended December 31, 2014 to the year ended December 31, 2013 (in thousands, except per share amounts)***

	Year ended December 31,							Continuing operations variance
	2014			2013				
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total		
Revenue	\$ 57,409	\$ 14,969	\$ 72,378	\$ 53,782	\$ 25,228	\$ 79,010	\$ 3,627	
Hotel and property operations expenses	(43,256)	(11,545)	(54,801)	(42,044)	(20,680)	(62,724)	(1,212)	
Depreciation and amortization expense	(6,437)	(112)	(6,549)	(6,258)	(1,036)	(7,294)	(179)	
General and administrative expense	(4,192)	-	(4,192)	(3,923)	-	(3,923)	(269)	
Acquisition and terminated transactions expense	-	-	-	(713)	-	(713)	713	
Terminated equity transactions expense	(76)	-	(76)	(1,050)	-	(1,050)	974	
Net gain (loss) on dispositions of assets	1	2,749	2,750	(47)	1,853	1,806	48	
Unrealized derivative gain (loss)	(14,430)	-	(14,430)	10,028	-	10,028	(24,458)	
Other income	116	-	116	34	-	34	82	
Interest expense	(7,019)	(1,237)	(8,256)	(5,399)	(2,878)	(8,277)	(1,620)	
Loss on extinguishment of debt	(158)	(120)	(278)	(458)	(706)	(1,164)	300	
Impairment (loss) recovery	(1,269)	(1,652)	(2,921)	(2,438)	(4,648)	(7,086)	1,169	
Income tax expense	-	-	-	-	-	-	-	
<b>Net earnings (loss)</b>	<b>\$ (19,311)</b>	<b>\$ 3,052</b>	<b>\$ (16,259)</b>	<b>\$ 1,514</b>	<b>\$ (2,867)</b>	<b>\$ (1,353)</b>	<b>\$ (20,825)</b>	

*Revenue*

During 2014, revenue from continuing operations increased \$3,627 or 6.7%, compared to 2013. Two of our hotels that had suffered in the Washington DC market's downturn recovered, due to both the improving Washington D.C. market and increased capital investment. Revenue improvements at properties in the Midwest are largely driven by increased business from construction and special projects. Renovations and capital improvements to selected properties in the portfolio are also creating increased revenue.

*Expenses*

Hotel and property operations expense from continuing operations increased \$1,212. Payroll, utilities, franchise related expenses, and management fees rose as expected with increased occupancy. This increase was partially offset by a decrease in the cost of room supplies, due to the prior year's linen upgrades.

Interest expense from continuing operations increased \$1,620, caused by the increased interest rate on debt refinanced in the fourth quarter of 2013 and increased amortization of deferred finance costs associated with that refinancing and GE loan modifications during 2014.

The \$269 increase in general and administrative expense was primarily a result of increased director and officer insurance premiums, in addition to legal expense from changing states of incorporation, partially offset by decreased salary expense from fewer employees.

The \$713 decrease in acquisition and terminated transaction expense represents expenses incurred for planned hotel acquisitions which were cancelled in 2013.

The \$1,050 of terminated equity transactions expense for 2013 includes charges incurred in preparation of a proposed common stock offering. The offering was withdrawn September 26, 2013.

### *Impairment Loss*

In 2014 we had \$1,269 of impairment losses in continuing operations and \$1,652 of net impairment losses in discontinued operations for the year. In 2013 we had \$2,438 of impairment losses in continuing operations and \$4,648 of impairment losses in discontinued operations for the year. Discontinued operations consisted of nine hotels held for sale at December 31, 2014 and hotels sold during 2013 and 2014.

### *Dispositions*

In 2014, five hotels were sold with gains totaling \$2,749 and eight hotels were sold with no gain. In 2013, six hotels were sold with gains totaling \$1,853, and 11 hotels were sold with no gain.

### *Unrealized Derivative Gain (loss)*

The change in unrealized derivative gain (loss) was a result of the change in fair value of the derivative liabilities for the current year compared to the year ended December 31, 2013. The fair value of the derivative liabilities increased by an aggregate of \$14,430 during 2014 and decreased by \$10,028 during the year 2013. The increase in fair value in 2014 was primarily due to the change in exercise price of the related warrants adjusted downward from \$9.60 to \$1.92 and to a change in the conversion price of the Series C preferred stock from \$8.00 to \$1.60, the public offering price of the common stock in the Company's subscription rights offering concluded on June 6, 2014.

### *Income Tax Expense*

As of December 31, 2014 and 2013, a full valuation allowance was recorded against the net deferred tax asset due to the uncertainty of realization because of historical operating losses. Due to the full deferred tax valuation allowance, no income tax expense or benefit was recorded for the years ended December 31, 2014 and 2013. Management believes the federal and state income tax rate for the TRS will be approximately 38%. The income tax benefit or expense will vary based on the taxable earnings or loss of the TRS.

### **Non-GAAP Financial Measures**

Non-GAAP financial measures are measures of our historical financial performance that are different from measures calculated and presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We report Funds from Operations ("FFO"), Adjusted FFO ("AFFO"), Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"), Adjusted EBITDA, and Property Operating Income ("POI") as non-GAAP measures that we believe are useful to investors as key measures of our operating results and which management uses to facilitate a periodic evaluation of our operating results relative to those of our peers. Our non-GAAP measures should not be considered as an alternative to U.S. GAAP net income (loss) or operating income (loss) as an indication of financial performance or to U.S. GAAP cash flows from operating activities as a measure of liquidity. Additionally, these measures are not indicative of funds available to fund cash needs or our ability to make cash distributions as they have not been adjusted to consider cash requirements for capital expenditures, property acquisitions, debt service obligations, or other commitments.

### ***Funds from Operations ("FFO") & Adjusted FFO ("AFFO")***

We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which defines FFO as net earnings computed in accordance with GAAP, excluding gains or losses from sales of real estate assets, impairment, and the depreciation and amortization of real estate assets. FFO is calculated both for the Company in total and as FFO available to common shareholders, which is FFO excluding earnings attributable to noncontrolling interests and preferred stock dividends. AFFO is FFO available to common shareholders adjusted to exclude items we do not believe are representative of the results from our core operations, such as non-cash unrealized gains or losses on derivative liabilities, gains on debt conversion, and cash charges for acquisition costs and terminated equity offering expense. All REITs do not calculate FFO and AFFO in the same manner; therefore, our calculation may not be the same as the calculation of FFO and AFFO for similar REITs.

We consider FFO and AFFO to be useful additional measures of performance for an equity REIT because they facilitate an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that FFO and AFFO provide a meaningful indication of our performance.

The following table reconciles net earnings (loss) to FFO and AFFO for the years ended December 31 (in thousands). All amounts presented include both continuing and discontinued operations.

<b>Reconciliation of Net earnings (loss) to FFO and AFFO</b>	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net earnings (loss)	\$ 14,322	\$ (16,259)	\$ (1,353)
Depreciation and amortization expense	5,400	6,549	7,294
Net (gain) loss on disposition of assets	(7,795)	(2,750)	(1,806)
Impairment loss	3,708	2,921	7,086
<b>FFO</b>	<b>15,635</b>	<b>(9,539)</b>	<b>11,221</b>
(Earnings) loss attributable to noncontrolling interests	(1,197)	23	2
Preferred stock dividends declared and undeclared	(3,632)	(3,452)	(3,349)
<b>FFO available to common shareholders</b>	<b>10,806</b>	<b>(12,968)</b>	<b>7,874</b>
Unrealized (gain) loss on derivatives	(11,578)	14,430	(10,028)
Acquisition and terminated transactions expense	684	-	713
Gain on debt conversion	-	(88)	-
Terminated equity transaction expense	246	76	1,050
<b>AFFO available to common shareholders</b>	<b>\$ 158</b>	<b>\$ 1,450</b>	<b>\$ (391)</b>

***Earnings Before Interest, Taxes, Depreciation, and Amortization (“EBITDA”) and Adjusted EBITDA***

We calculate EBITDA and Adjusted EBITDA by adding back to net earnings (loss) certain non-operating expenses and certain non-cash charges which are based on historical cost accounting that we believe may be of limited significance in evaluating current performance. We believe these adjustments can help eliminate the accounting effects of depreciation and amortization and financing decisions and facilitate comparisons of core operating profitability between periods. In calculating EBITDA, we add back to net earnings (loss) interest expense, loss on debt extinguishment, income tax expense, and depreciation and amortization expense. In calculating Adjusted EBITDA, we adjust EBITDA to add back net (gain) loss on disposition of assets, acquisition and terminated transactions expense, and terminated equity transactions expense, which are cash charges. We also add back impairment, gain on debt conversion, and unrealized derivative gain or loss, which are non-cash charges. Our current calculation of EBITDA varies from that presented in previous filings as EBITDA was historically calculated based on net earnings (loss) available to common shareholders with preferred dividends and noncontrolling interest added back only to Adjusted EBITDA. EBITDA and Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of other companies.

We believe EBITDA and Adjusted EBITDA to be useful additional measures of our operating performance, excluding the impact of our capital structure (primarily interest expense), our asset base (primarily depreciation and amortization expense), and other items we do not believe are representative of the results from our core operations.

The following table reconciles net earnings (loss) to EBITDA and Adjusted EBITDA for the years ended December 31 (in thousands). All amounts presented include both continuing and discontinued operations.

<b>Year ended December 31,</b>			
<b>Reconciliation of Net earnings (loss) to EBITDA and Adjusted EBITDA</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net earnings (loss)	\$ 14,322	\$ (16,259)	\$ (1,353)
Interest expense	5,745	8,256	8,277
Loss on debt extinguishment	213	278	1,164
Income tax expense	-	-	-
Income tax valuation allowance	-	-	-
Depreciation and amortization expense	5,400	6,549	7,294
<b>EBITDA</b>	<b>25,680</b>	<b>(1,176)</b>	<b>15,382</b>
Net gain on disposition of assets	(7,795)	(2,750)	(1,806)
Impairment loss	3,708	2,921	7,086
Unrealized (gain) loss on derivatives	(11,578)	14,430	(10,028)
Acquisition and terminated transactions expense	684	-	713
Gain on debt conversion	-	(88)	-
Terminated equity transactions expense	246	76	1,050
<b>Adjusted EBITDA</b>	<b>\$ 10,945</b>	<b>\$ 13,413</b>	<b>\$ 12,397</b>

***Property Operating Income (“POI”)***

We calculate POI as room rentals and other hotel services revenue less hotel and property operating expenses. We believe POI is helpful to investors as it better communicates the comparability of our hotels’ operating results for all of the Company’s hotel properties. POI as presented below includes both continuing and discontinued operations.

The following table reconciles operating income (loss) to POI for the years ended December 31 (in thousands). All amounts presented include only continuing operations only unless otherwise noted.

<b>Year ended December 31,</b>			
<b>Reconciliation of Operating income (loss) to POI</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Operating income (loss)	\$ 3,332	\$ 3,448	(206)
Depreciation and amortization	5,400	6,437	6,258
General and administrative expense	5,493	4,192	3,923
Acquisition and terminated transactions expense	684	-	713
Terminated equity transactions expense	246	76	1,050
Room rentals and property operations revenue, discontinued operations	4,296	14,969	25,228
Hotel and property operating expense, discontinued operations	(3,127)	(11,545)	(20,680)
<b>POI</b>	<b>\$ 16,324</b>	<b>\$ 17,577</b>	<b>\$ 16,286</b>

## Liquidity and Capital Resources

### *Liquidity Requirements*

Our short-term liquidity requirements consist primarily of operating expenses and other expenditures directly associated with our hotel properties, recurring maintenance and capital expenditures necessary to maintain our hotels in accordance with brand standards, interest expense and scheduled principal payments on outstanding indebtedness, and restricted cash funding obligations.

Our longer-term liquidity requirements consist primarily of the costs of acquiring additional hotel properties, renovations and other one-time capital expenditures that periodically are made with respect to our hotel properties, and scheduled debt payments, including maturing loans. Additionally, the Company has an obligation to RES to use \$25 million of the proceeds from its capital infusion in 2012 to pursue hotel acquisitions. There are no contractual restrictions or penalties related to the use of these funds for purposes other than acquisitions, but the Company is obligated to replace these funds promptly as it has the ability to do so. At December 31, 2015, following the completion of the three hotel acquisitions in 2015, the Company believes it has satisfied all but \$1.6 million of this obligation.

Further, in order to satisfy the requirements for qualification as a REIT, we must meet certain organizational and operational requirements and distribute to our shareholders at least 90% of our REIT taxable income annually. The Company has not declared a common stock dividend since 2008. In December 2013, the Company announced the suspension of the regular dividends on its outstanding preferred stock to preserve capital and improve liquidity. At December 31, 2015, accumulated preferred dividends totaled \$7.8 million. The Company will monitor requirements to maintain its REIT status and will routinely evaluate the dividend policy.

We expect to meet our short-term liquidity requirements through net cash provided by operations, existing cash balances and working capital, short-term borrowings under our revolving credit agreement with Great Western Bank, and the release of restricted cash upon the satisfaction of usage requirements. At December 31, 2015, the Company had \$4.9 million of cash and cash equivalents on hand and \$2.5 million of unused availability under its revolving credit agreement. We expect our existing cash balances and cash provided by operations will be adequate to fund operating requirements, service debt, and fund required capital expenditures, which are currently estimated at between \$3.5 million and \$4.5 million through March 2017, for the properties we currently own.

Possible sources of liquidity to fund debt maturities, pay accumulated preferred dividends, fund acquisitions, and meet other obligations include additional secured or unsecured debt financings and proceeds from public or private issuances of debt or equity securities. As discussed further in the Subsequent Events footnote to the consolidated financial statements, on March 16, 2016, the Company closed on a series of agreements which provided the Company with net proceeds in excess of \$7.0 million after the payment of expenses, the redemption of certain classes of preferred stock, and the payment of all accumulated preferred dividends.

Prior to the consideration of any asset sales or our ability to refinance debt subsequent to December 31, 2015, contractual principal payments on our debt outstanding, including normal amortization, total \$13.6 million through March 31, 2017, including the February 1, 2017 maturity of one of our GE loans debt with a balance at December 31, 2015 of \$10.8 million. Prior to its maturity, our company anticipates refinancing the GE loan with GE or another lender. As a result of our improved financial condition and the terms of the lending arrangements we have entered into in recent periods, we believe we will be able to refinance this debt on similar or perhaps more favorable terms. However, notwithstanding our perception that the lending market has improved, we may not be successful in our efforts to refinance or repay our maturing debt.

At December 31, 2015, we have 16 hotels held for sale which, if sold, we believe will generate \$12.6 million in net proceeds after debt repayment. Three of these asset sales were completed in January 2016, providing the Company with net proceeds after debt repayment of \$2.7 million. Over the last five years, we have sold 68 hotels. Although it is management's plan to use net proceeds after debt repayment from future asset sales to fund future acquisitions, if necessary the Company believes that cash generated from asset dispositions will be sufficient to fund any shortfalls associated with future debt maturities. However, with respect to future hotel sales, we cannot predict whether we

will be able to find buyers for identified assets at prices and other terms acceptable to us, whether potential buyers will be able to secure financings, and the length of time needed to find a buyer and to close the sale of a property.

Significant progress has been made in reducing future debt maturities and improving the Company's liquidity position since December 31, 2014. The execution of management's plans, as described above, is dependent upon future hotel sales and/or the ability to refinance existing maturing debt which cannot be assured, but which we believe is probable. Based on these improvements, at December 31, 2015 management has concluded that there is no longer substantial doubt regarding the Company's ability to continue as a going concern.

### ***Sources and Uses of Cash***

*Cash provided by Operating Activities.* Our cash provided by operations was \$5.0 million, \$5.4 million, and \$2.0 million for the years ended December 31, 2015, 2014, and 2013, respectively. These changes in operating cash flows were driven by changes in net income, after adjusting for non-cash items, which decreased by \$1.1 million in 2015 from 2014 and increased by \$4.0 million in 2014 from 2013. Other changes in operating cash flows between the periods were due to miscellaneous changes in property tax and insurance escrow balances and accounts receivable.

*Cash provided by Investing Activities.* Our cash provided by investing activities was \$5.4 million, \$17.9 million, and \$15.6 million for the years ended December 31, 2015, 2014, and 2013, respectively. The significant decrease in these cash flows in 2015 from previous periods was a result of cash spent on acquisitions of \$42.6 million in 2015 which was partially offset by increased proceeds from the sale of properties during the year, which totaled \$53.3 million in 2015 versus \$21.3 million and \$20.7 million in 2014 and 2013, respectively.

*Cash used in Financing Activities.* Our cash used by financing activities was \$5.7 million, \$23.2 million, and \$18.5 million for the years ended December 31, 2015, 2014, and 2013, respectively. Although debt repayments increased in 2015 due to increased property sales, this increase in debt repayments was offset by increased cash inflows for new debt obtained, including the debt obtained in connection with the 2015 acquisitions which totaled \$15.1 million excluding debt assumed.

### **Outstanding Indebtedness**

At December 31, 2015, we had long-term debt of \$70.3 million associated with assets held for use with a weighted average term to maturity of 3.0 years and a weighted average interest rate of 5.13%. Of this total, at December 31, 2015, \$33.0 million is fixed rate debt with a weighted average term to maturity of 1.8 years and a weighted average interest rate of 5.64% and \$37.3 million is variable rate debt with a weighted average term to maturity of 4.0 years and a weighted average interest rate of 4.67%. At December 31, 2014, we had long-term debt of \$45.2 million associated with assets held for use with a weighted average term to maturity of 2.4 years and a weighted average interest rate of 5.70%, all of which was fixed rate debt.

Debt is classified as held for sale if the properties collateralizing it are held for sale. Debt associated with assets held for sale is classified in the table below based on its contractual maturity although the balances are expected to be repaid within one year upon the sale of the related hotel properties. Aggregate annual principal payments on debt for the next five years and thereafter are as follows:

	<b>Held for sale</b>		<b>Held for use</b>		<b>Total</b>
2016	\$	681	\$	2,051	\$ 2,732
2017		14,333		29,016	43,349
2018		2,204		16,108	18,312
2019		-		686	686
2020		-		22,457	22,457
Total	\$	<u>17,218</u>	\$	<u>70,318</u>	\$ <u>87,536</u>

### ***Financial Covenants***

The Company's debt agreements contain requirements as to the maintenance of minimum levels of debt service and fixed charge coverage and required loan-to-value and leverage ratios, and place certain restrictions on dividends. As of December 31, 2015, we were in compliance with our financial covenants.

If we fail to pay our indebtedness when due, fail to comply with covenants or otherwise default on our loans, unless waived, we could incur higher interest rates during the period of such loan defaults, be required to immediately pay our indebtedness and ultimately lose our hotels through lender foreclosure if we are unable to obtain alternative sources of financing with acceptable terms. Our Great Western Bank and certain of our GE facilities contain cross-default provisions which would allow Great Western Bank and GE to declare a default and accelerate our indebtedness to them if we default on our other loans and such default would permit that lender to accelerate our indebtedness under any such loan. As of December 31, 2015, we are not in default of any of our loans.

### ***Significant Debt Transactions***

During 2015, the Company sold 17 hotel properties for combined gross sales proceeds of \$54.7 million. Net proceeds were used to pay off the associated loans totaling \$27.9 million, to fund acquisitions, to reduce the balance of the revolving credit facility with Great Western Bank, and for general corporate purposes.

On February 17, 2015, the maturity date of the Company's GE loan formerly due March 2, 2015 was extended to December 15, 2015. A required principal payment of \$0.3 million was paid on the loan in February 2015. This loan was repaid in full on December 15, 2015 with cash on hand at the date of maturity.

On May 28, 2015, the \$8.3 million mortgage loan previously held by Middle Patent Capital, LLC was, through the Company's efforts, sold to Frontier Bank. The interest rate was reduced from 12.5% to 6.0% and the maturity date was extended from June 6, 2015 to May 1, 2016. The Frontier Bank loan was repaid in full upon the disposition of the encumbered properties in July 2015.

On June 5, 2015, the Company amended its revolving credit facility with Great Western Bank to, among other things, extend the maturity date to June 30, 2018, modify the interest rate from 4.5% annually to the prime rate plus 1.0% annually (at December 31, 2015, 4.5% percent annually) and remove the 2.0% prepayment penalty required upon refinancing with another financial institution.

On October 1, 2015, the purchase of the San Antonio hotel was financed, in part, through the assumption of a mortgage loan payable to LMREC 2015-CREI, Inc. (Latitude). The assumed mortgage loan had a principal amount of \$11.22 million. The Latitude loan is non-recourse, requires monthly interest payments and, commencing in May 2016, monthly principal payments of \$12,000. The principal balance is due and payable on May 1, 2018. The loan bears interest at a variable rate of 30-day LIBOR (subject to a floor of 0.1522%) plus 6.25%.

On October 2, 2015, the purchase of the Atlanta and Jacksonville hotels was financed, in part, with the proceeds of mortgage loans provided by GE Capital Franchise Finance Corporation (GE) with principal amounts of \$5 million for the loan secured by the Atlanta hotel and \$10.1 million for the loan secured by the Jacksonville hotel. The loan agreement related to the Atlanta hotel also provides for a \$2 million earn out option which may be borrowed in the third and fourth years after the loan is outstanding if certain financial tests and other conditions are satisfied. The GE loans are non-recourse and require monthly principal and interest payments based on a 25-year amortization with the principal balance due and payable on November 1, 2020. The loans bear interest at a variable rate of 90-day LIBOR plus 3.25%.

On October 26, 2015, the Company closed a \$10.0 million mortgage loan with The Huntington National Bank. The loan has a five year term, a 25-year amortization schedule, and a fixed rate of 4.13% (after giving effect to the interest rate swap purchased at the time of loan origination). The loan is non-recourse and secured by four hotels located in Indiana. Proceeds were used to refinance an existing loan with Citigroup Global Markets Realty Corp., which was set to mature in November, 2015.



## Significant Equity Transactions

On March 2, 2015, the Company granted a warrant to an executive officer of the Company as an inducement material to the executive's acceptance of employment. The warrant entitles the executive to purchase a total of 657,894 authorized but previously unissued shares of the Company's common stock with a grant date price at (i) \$1.52 per share (the adjusted closing bid price of the common stock on Nasdaq on March 2, 2015) if at least one-third but not more than one-half of the shares are purchased on or prior to March 17, 2015, and (ii) \$1.92 per share for shares purchased after. The warrant has a three-year term. The executive officer exercised the warrant in part to purchase 227,894 shares on March 11, 2015 at the price of \$1.52 per share. The warrant remains exercisable for 430,000 shares at an exercise price of \$1.92 per share.

On March 2, 2015, the Company granted an equity award of 5,263,152 long-term incentive plan ("LTIP") units, representing profit interests in SLP to an executive of the company. The LTIP units are earned in one-third increments upon the Company's common stock achieving price per share milestones of \$3.50, \$4.50, and \$5.50, respectively. Earned LTIP Units vest in March 2018, or earlier upon a change in control of the Company, and can be redeemed at the rate of one share of common stock for each eight earned LTIP units for up to 657,894 of common shares.

On October 1 and 2, 2015, as partial consideration for the purchase of hotels, 2,298,879 common units in SLP were issued with a value of \$450,000.

As discussed further in the Subsequent Events footnote to the consolidated financial statements, on March 16, 2016, the Company entered into a series of agreements providing for (a) the issuance and sale of Condor's Series D cumulative convertible preferred stock in a private transaction, (b) the exchange of all of Condor's outstanding Series C preferred stock for Series D preferred stock, and (c) the cash redemption of all of Condor's outstanding Series A and Series B preferred stock.

To maintain our REIT tax status, we generally must distribute at least 90% of our taxable income to our shareholders annually. In addition, we are subject to a 4% non-deductible excise tax if the actual amount distributed to shareholders in a calendar year is less than a minimum amount specified under the federal income tax laws. We have a general dividend policy of paying out approximately 100% of annual REIT taxable income. The actual amount of any future dividends will be determined by the Board of Directors based on our actual results of operations, economic conditions, capital expenditure requirements, and other factors that the Board of Directors deems relevant.

## Contractual Obligations

Below is a summary of certain obligations that will require capital as of December 31, 2015 (in thousands):

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				<b>More than 5 Years</b>
	<b>Total</b>	<b>Year 1</b>	<b>Years 2-3</b>	<b>Years 4-5</b>	
Long-term debt, including interest (1)	\$ 80,018	\$ 5,631	\$ 49,581	\$ 24,806	\$ -
Land leases (2)	347	191	76	80	-
Total contractual obligations	<u>\$ 80,365</u>	<u>\$ 5,822</u>	<u>\$ 49,657</u>	<u>\$ 24,886</u>	<u>\$ -</u>

- (1) Interest rate payments on our variable rate debt have been estimated using interest rates in effect at December 31, 2015, after giving consideration to our interest rate swaps.
- (2) Primarily ground leases and corporate office leases.

The column titled "Year 1" represents payments due for 2016. Long-term debt and land lease payments above include only amounts related to properties classified as held for use. Future debt payments, including interest, related to the 16 held for sale properties that are expected to be sold in the next 12 months of \$19.0 million are not included in the table above.

We have various standing or renewable contracts with vendors. These contracts are all cancelable with immaterial or no cancellation penalties. Contract terms are generally one year or less. We also have management agreements in place for the management and operation of our hotel properties.

### **Inflation**

We rely on the performance of our hotels to increase revenues to keep pace with inflation. Generally, our hotel operators possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

### **Off Balance Sheet Financing Transactions**

We have not entered into any off balance sheet financing transactions.

### **Critical Accounting Policies**

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. We have identified the following principal accounting policies that have a material effect on our consolidated financial statements.

#### ***Investment in Hotel Properties***

At the time of acquisition, the Company allocates the purchase price of assets to asset classes based on the fair value of the acquired real estate, furniture, fixtures and equipment, and intangible assets, if any, and the fair value of liabilities assumed, including debt. Acquisition date fair values are determined based on replacement costs, appraised values, and estimated fair values using methods similar to those used by independent appraisers including discounted cash flows and capitalization rates. Acquisition costs are expensed as incurred.

The Company's investments in hotel properties are recorded at cost and are depreciated using the straight-line method over an estimated useful life of 15 to 40 years for buildings and improvements and 3 to 12 years for furniture, fixtures, and equipment.

Development and construction costs of properties in development are capitalized including, where applicable, direct and indirect costs, including real estate taxes and interest costs. Development and construction costs and costs of significant improvements, replacements, or renovations are capitalized while costs of maintenance and repairs are expensed as incurred.

On a quarterly basis, the Company reviews the carrying value of each held for use hotel to determine if certain circumstances, known as triggering events, exist indicating impairment to the carrying value of the hotel or that depreciation periods should be modified. These triggering events include a significant change in the cash flows of or a significant adverse change in the business climate for a hotel. If facts or circumstances support the possibility of impairment, the Company will prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel and determine if the investment in such hotel is recoverable based on these undiscounted future cash flows. If the investment is not recoverable based on this analysis, an impairment charge will be taken, if necessary, to reduce the carrying value of the hotel to the hotel's fair value.

#### ***Assets Held for Sale and Discontinued Operations***

A hotel is considered held for sale (a) when a contract for sale is entered into, a substantial, nonrefundable deposit has been committed by the purchaser, and sale is expected to occur within one year, or (b) if management has committed to and is actively engaged in a plan sell the property, the property is available for sale in its current condition, and it is probable the sale will be completed within one year. If a hotel is considered held for sale as of the most recent balance sheet presented or was sold in any period presented, the hotel property and the debt it collateralizes are shown as held for sale in all periods presented.

Depreciation of our hotels is discontinued at the time they are considered held for sale. If the fair value of the held for sale property less costs to sell is lower than the carrying value of the hotel, the Company will record an impairment loss. Impairment losses on held for sale properties may be subsequently recovered up to the amount of the cumulative impairment losses taken while the property is held for sale should future revisions to fair value estimates be required. If active marketing ceases or the property no longer meets the criteria to be classified as held for sale, the property is reclassified to held for use and measured at the lower of its (a) carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held for use, or (b) its fair value at the date of the subsequent decision not to sell.

Historically, we have presented the results of operations of hotel properties that have been sold or considered held for sale as discontinued operations. In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in ASU 2014-08 change the criteria for reporting a discontinued operation and require new disclosures of both discontinued operations and certain other significant disposals that do not meet the definition of a discontinued operation. Only disposals representing a strategic shift in operations that have a major effect on an entity’s operations and financial results should be presented as discontinued operations subsequent to adoption. The Company adopted the pronouncement on October 1, 2014. As a result of this early adoption, only the operations of hotels meeting the criteria to be considered held for sale prior to October 1, 2014 are included in discontinued operations for all periods presented as no individual property disposition has a major effect on our operations or financial results.

Gains on the sale of real estate are recognized when a property is sold, provided that the profit is determinable, meaning that collectability of the sales price is reasonably assured or can be estimated, and that the earnings process is complete, meaning that the seller is not obligated to perform significant activities after the sale in order to earn the profit. If these criteria are not met, the timing of the sale is determined based on various criteria related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, the gain is deferred and the finance, installment, or cost recovery method, as appropriate, is applied until the sales criteria are met. To the extent we sell a property and retain a partial ownership interest in the property, we generally recognize a gain to the extent of the third party ownership interest.

### ***Income Taxes***

The Company qualifies and intends to continue to qualify as a REIT under applicable provisions of the Internal Revenue Code (the “Code”), as amended. In general, under such Code provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income, will not be subject to federal income tax to the extent of the income currently distributed to shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will be unable to re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT, unless we satisfy certain relief provisions. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. Except with respect to the TRS, the Company does not believe that it will be liable for significant federal or state income taxes in future years.

A REIT will incur a 100% tax on the net gain derived from any sale or other disposition of property that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. We do not believe any of our hotels were held primarily for sale in the ordinary course of our trade or business. However, if the IRS would successfully assert that we held such hotels primarily for sale in the ordinary course of our business, the gain from such sales could be subject to a 100% prohibited transaction tax.

Taxable income from non-REIT activities managed through the TRS, which is taxed as a C-Corporation, is subject to federal, state, and local income taxes. We account for the federal income taxes of our TRS using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the

financial reporting bases of assets and liabilities of the TRS and their respective tax bases and for operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and projections for future taxable income over the periods in which the remaining deferred tax assets are deductible. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income.

The Company may recognize a tax benefit from an uncertain tax position when it is more-likely-than-not (defined as a likelihood of more than 50%) that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on its technical merits. If a tax position does not meet the more-likely-than-not recognition threshold, despite the Company's belief that its filing position is supportable, the benefit of that tax position is not recognized in the statement of operations. The Company recognizes interest and penalties, as applicable, related to unrecognized tax benefits as a component of income tax expense. The Company recognizes unrecognized tax benefits in the period that the uncertainty is eliminated by either affirmative agreement to the uncertain tax position by the applicable taxing authority or by expiration of the applicable statute of limitations.

### ***New Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The original updated accounting guidance was effective for annual and interim reporting periods in fiscal years beginning after December 15, 2016, however, in July 2015, the FASB approved a one year delay of the effective date to fiscal years beginning after December 15, 2017. As such, the standard will be effective for the Company on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. Currently, debt issuance costs are recorded as an asset. The new standard is effective for the Company on January 1, 2016 and will be applied on a retrospective basis. The Company anticipates a change in our balance sheet presentation of deferred financing cost only because the standard does not alter the accounting for the amortization of debt issuance costs.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices, and other market changes that effect market-sensitive instruments. Our market risk arises primarily from interest rate risk relating to variable rate borrowings and the market risk related to our derivative liabilities that fair values will fluctuate following changes in the Company's common stock price or changes in interest rates.

### ***Interest Rate Sensitivity***

We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging agreements. At December 31, 2015, we have an interest rate swap in place which effectively locks the variable interest rate on our Huntington Bank debt (balance of \$9.98 million) at 4.13%. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

The table below provides information about financial instruments that are sensitive to changes in interest rates. The table presents scheduled maturities, including the amortization of principal and related weighted-average interest rates for the debt maturing in each specified period, excluding \$17.2 million of debt related to hotel properties held for sale (dollars in thousands):

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Fixed rate debt	\$ 1,344	\$ 28,236	\$ 3,457	\$ -	\$ -	\$ 33,037
Average fixed interest rate	5.81 %	5.74 %	4.75 %	- %	- %	5.64 %
Variable rate debt	\$ 708	\$ 779	\$ 12,651	\$ 686	\$ 22,457	\$ 37,281
Average variable interest rate	4.21 %	4.34 %	6.20 %	3.85 %	3.85 %	4.67 %
Total debt	\$ 2,052	\$ 29,015	\$ 16,108	\$ 686	\$ 22,457	\$ 70,318
Total average interest rate	5.26 %	5.71 %	5.89 %	3.85 %	3.85 %	5.12 %

At December 31, 2015, approximately 61% of our outstanding debt, excluding debt related to hotel properties held for sale, is subject to fixed interest rates or effectively locked with an interest rate swap, while 39% of our debt is subject to floating rates. Assuming no increase in the level of our variable debt outstanding at December 31, 2015 and after giving effect to our interest rate swap, if interest rates increased by 1.0% our cash flow related to hotel properties held for use would decrease by approximately \$0.3 million per year.

**Condor Hospitality Trust, Inc. and Subsidiaries**  
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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Condor Hospitality Trust, Inc.:

We have audited the accompanying consolidated balance sheets of Condor Hospitality Trust, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we have also audited the related financial statement schedule, Schedule III – Real Estate and Accumulated Depreciation. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Condor Hospitality Trust, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for discontinued operations as of October 1, 2014 on a prospective basis due to the adoption of Accounting Standards Update 2014-08.

(signed) KPMG LLP

Omaha, Nebraska  
March 24, 2016

**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Consolidated Balance Sheet**  
(In thousands, except share and per share data)

	As of December 31,	
	2015	2014
<b>Assets</b>		
Investments in hotel properties	\$ 144,870	\$ 105,520
Less accumulated depreciation	37,938	38,331
	106,932	67,189
Cash and cash equivalents	4,870	173
Restricted cash	3,776	2,478
Accounts receivable, net of allowance for doubtful accounts of \$10 and \$25	1,169	1,190
Prepaid expenses and other assets	1,782	1,784
Deferred financing costs, net	1,575	1,637
Investment in hotel properties, held for sale, net	23,767	71,993
<b>Total Assets</b>	<b>\$ 143,871</b>	<b>\$ 146,444</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Accounts payable, accrued expenses, and other liabilities	\$ 5,419	\$ 6,666
Derivative liabilities, at fair value	8,759	20,337
Debt related to hotel properties held for sale	17,218	47,536
Long-term debt	70,318	45,151
<b>Total Liabilities</b>	<b>101,714</b>	<b>119,690</b>
Redeemable preferred stock		
10% Series B, 800,000 shares authorized; \$.01 par value 332,500 shares outstanding, liquidation preference of \$10,182	7,662	7,662
<b>Equity</b>		
Shareholders' equity		
Preferred stock, 40,000,000 shares authorized:		
8% Series A, 2,500,000 shares authorized, \$.01 value, 803,270 par shares outstanding, liquidation preference of \$9,485	8	8
6.25% Series C, 3,000,000 shares authorized, \$.01 par value, 3,000,000 shares outstanding, liquidation preference of \$34,492	30	30
Common stock, \$.01 par value, 200,000,000 shares authorized; 4,941,878 and 4,692,965 shares outstanding	49	47
Additional paid-in capital	138,387	137,900
Accumulated deficit	(105,858)	(118,983)
Total shareholders' equity	32,616	19,002
Noncontrolling interest in consolidated partnership, redemption value \$1,197 and \$25	1,879	90
<b>Total Equity</b>	<b>34,495</b>	<b>19,092</b>
<b>Total Liabilities and Equity</b>	<b>\$ 143,871</b>	<b>\$ 146,444</b>

See accompanying notes to consolidated financial statements.



**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Consolidated Statement of Operations**  
(In thousands, except per share data)

	Year ended December 31,		
	2015	2014	2013
<b>Revenue</b>			
Room rentals and other hotel services	\$ 57,341	\$ 57,409	\$ 53,782
<b>Operating Expenses</b>			
Hotel and property operations	42,186	43,256	42,044
Depreciation and amortization	5,400	6,437	6,258
General and administrative	5,493	4,192	3,923
Acquisition and terminated transactions	684	-	713
Terminated equity transactions	246	76	1,050
Total operating expenses	54,009	53,961	53,988
<b>Operating income (loss)</b>	3,332	3,448	(206)
Net gain (loss) on dispositions of assets	4,802	1	(47)
Unrealized derivative gain (loss)	11,578	(14,430)	10,028
Other income	114	116	34
Interest expense	(5,445)	(7,019)	(5,399)
Loss on debt extinguishment	(213)	(158)	(458)
Impairment loss	(3,828)	(1,269)	(2,438)
Earnings (loss) from continuing operations before income taxes	10,340	(19,311)	1,514
Income tax expense	-	-	-
Earnings (loss) from continuing operations	10,340	(19,311)	1,514
Gain (loss) from discontinued operations, net of tax	3,982	3,052	(2,867)
<b>Net earnings (loss)</b>	14,322	(16,259)	(1,353)
(Earnings) loss attributable to noncontrolling interest	(1,197)	23	2
<b>Net earnings(loss) attributable to controlling interests</b>	13,125	(16,236)	(1,351)
Preferred stock dividends declared and undeclared	(3,632)	(3,452)	(3,349)
<b>Net earnings (loss) attributable to common shareholders</b>	\$ 9,493	\$ (19,688)	\$ (4,700)
<b>Basic Earnings Per Share (EPS)</b>			
Basic EPS from continuing operations	\$ 1.22	\$ (5.84)	\$ (0.64)
Basic EPS from discontinued operations	0.72	0.79	(0.99)
Total EPS Basic	\$ 1.94	\$ (5.05)	\$ (1.63)
<b>Diluted Earnings Per Share (EPS)</b>			
Diluted EPS from continuing operations	\$ (0.15)	\$ (5.84)	\$ (0.64)
Diluted EPS from discontinued operations	0.15	0.79	(0.99)
Total EPS Diluted	\$ -	\$ (5.05)	\$ (1.63)

See accompanying notes to consolidated financial statements.

**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Consolidated Statement of Equity**  
(In thousands)

Years ended December 31, 2015, 2014, and 2013

	Shares of preferred stock	Preferred stock	Shares of common stock	Common stock	Common stock warrants	Additional paid-in capital	Accumulated deficit	Total shareholder equity	Noncontrolling interest	Total equity
<b>Balance at December 31, 2012</b>	3,803	\$ 38	2,893	\$ 29	\$ 252	\$ 134,994	\$ (98,777)	\$ 36,536	\$ 115	\$ 36,651
Stock-based compensation	-	-	5	-	-	47	-	47	-	47
Warrant expiration	-	-	-	-	(252)	252	-	-	-	-
Preferred dividends	-	-	-	-	-	-	(2,619)	(2,619)	-	(2,619)
Net loss	-	-	-	-	-	-	(1,351)	(1,351)	(2)	(1,353)
<b>Balance at December 31, 2013</b>	3,803	\$ 38	2,898	\$ 29	\$ -	\$ 135,293	\$ (102,747)	\$ 32,613	\$ 113	\$ 32,726
Stock-based compensation	-	-	8	-	-	34	-	34	-	34
Rights offering	-	-	1,787	18	-	2,573	-	2,591	-	2,591
Net loss	-	-	-	-	-	-	(16,236)	(16,236)	(23)	(16,259)
<b>Balance at December 31, 2014</b>	3,803	\$ 38	4,693	\$ 47	\$ -	\$ 137,900	\$ (118,983)	\$ 19,002	\$ 90	\$ 19,092
Stock-based compensation	-	-	21	-	-	143	-	143	142	285
Issuance of common stock	-	-	228	2	-	344	-	346	-	346
Issuance of common units	-	-	-	-	-	-	-	-	450	450
Net income	-	-	-	-	-	-	13,125	13,125	1,197	14,322
<b>Balance at December 31, 2015</b>	3,803	\$ 38	4,942	\$ 49	\$ -	\$ 138,387	\$ (105,858)	\$ 32,616	\$ 1,879	\$ 34,495

See accompanying notes to consolidated financial statements.

**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Consolidated Statement of Cash Flows**  
(In thousands)

	Year ended December 31,		
	2015	2014	2013
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 14,322	\$ (16,259)	\$ (1,353)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,400	6,549	7,294
Amortization and disposal of deferred financing costs	927	1,450	1,124
Amortization of debt discount	-	38	-
Gains on dispositions of assets	(7,794)	(2,750)	(1,806)
Stock-based compensation expense	285	34	47
Provision for impairment loss	3,708	2,921	7,086
Unrealized (gain) loss on derivative instruments	(11,578)	14,430	(10,028)
Gain on debt conversion	-	(88)	-
Amortization of warrant issuance cost	58	58	58
Changes in operating assets and liabilities:	-	-	-
(Increase) decrease in assets	442	(63)	593
Decrease in liabilities	(800)	(933)	(998)
Net cash provided by operating activities	4,970	5,387	2,017
<b>Cash flows from investing activities:</b>			
Additions to hotel properties	(5,316)	(3,374)	(5,133)
Acquisition and development of hotel properties	(42,592)	-	-
Proceeds from sale of hotel assets	53,306	21,316	20,746
Net cash provided by investing activities	5,398	17,942	15,613
<b>Cash flows from financing activities:</b>			
Deferred financing costs	(865)	(485)	(1,081)
Principal payments on long-term debt	(51,868)	(22,207)	(34,033)
Proceeds from long-term debt, net	44,620	-	10,671
Payments on revolving debt	(39,056)	(30,843)	(38,478)
Proceeds from revolving debt	41,152	29,692	47,064
Proceeds from common stock issued in rights offering	346	860	-
Rights offering issuance costs	-	(218)	-
Dividends paid to preferred shareholders	-	-	(2,619)
Net cash used in financing activities	(5,671)	(23,201)	(18,476)
Increase (decrease) in cash and cash equivalents	4,697	128	(846)
Cash and cash equivalents, beginning of year	173	45	891
Cash and cash equivalents, end of year	\$ 4,870	\$ 173	\$ 45
Supplemental cash flow information			
Interest paid, net of amounts capitalized	\$ 5,085	\$ 7,119	\$ 8,496
<b>Schedule of noncash investing and financing activities:</b>			
Dividends declared preferred	\$ -	\$ -	\$ 3,349
Unamortized debt discount	\$ -	\$ 113	\$ -
Convertible loan embedded derivative	\$ -	\$ (151)	\$ -
Debt converted to common stock	\$ -	\$ (2,000)	\$ -
Common stock issued on conversion of debt	\$ -	\$ 1,950	\$ -
Debt assumed in acquisitions	\$ 11,220	\$ -	\$ -
Fair Value of SLP common units issued in acquisitions	\$ 450	\$ -	\$ -

See accompanying notes to consolidated financial statements.

**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Notes To Consolidated Financial Statements**  
**(In thousands, except share and per share data)**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Description of Business***

Condor Hospitality Trust, Inc. (“CDOR,” “Condor,” or the “Company”), which until July 15, 2015 was formerly named Supertel Hospitality, Inc., was incorporated in Virginia on August 23, 1994 and was reincorporated in Maryland on November 19, 2014. CDOR is a self-administered real estate investment trust (REIT) for federal income tax purposes that specializes in the investment and ownership of high quality select service, limited service, extended stay, and compact full service hotels. As of December 31, 2015, the Company owned 42 hotels in 20 states.

CDOR, through its wholly owned subsidiary, Supertel Hospitality REIT Trust, owns controlling interests in Supertel Limited Partnership (“SLP”) and E&P Financing Limited Partnership (“E&P”). SLP and E&P, including their various subsidiary partnerships, hold substantially all of the Company’s assets (with the exception of the furniture and equipment of 34 properties held by TRS Leasing, Inc.) and conducts all of its operations. At December 31, 2015, the Company owned 100% of E&P and 90.1% of the common operating units (“common units”) of SLP with the remaining common units owned by other limited partner and long-term inventive plan unit holders (see Note 12).

In order for the income from our hotel property investments to constitute “rents from real properties” for purposes of the gross income tests required by the Internal Revenue Service (“IRS”) for REIT qualification, the income we earn cannot be derived from the operation of any of our hotels. Therefore, SLP and E&P and their subsidiaries lease our hotel properties to the Company’s wholly owned taxable REIT subsidiary, TRS Leasing, Inc., and its wholly owned subsidiaries (the “TRS”). The TRS in turn engages third-party eligible independent contractors to manage the hotels. SLP, E&P, and the TRS and their respective subsidiaries are consolidated into the Company’s financial statements.

References to “we,” “our,” and “us” herein refer to Condor Hospitality Trust, Inc., including as the context requires, its direct and indirect subsidiaries.

Historically, as a result of the geographic areas in which we operate, the operations of our hotels have been seasonal in nature. Generally, occupancy rates, revenue, and operating income have been greater in the second and third quarters of the calendar year than in the first and fourth quarters, with the exception of our hotels located in Florida, which experience peak demand in the first and fourth quarters of the year. The results of the hotels acquired in October 2015 (see Note 3), because of their locations and chain scale, are expected to be less seasonal in nature than our legacy portfolio of assets.

***Basis of Presentation***

The consolidated financial statements have been prepared in accordance with U.S. general accepted accounting principles (“U.S. GAAP”) and include the accounts of the Company, as well as the accounts of SLP, E&P, their subsidiaries, and our wholly owned TRS and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

***Estimates, Risks, and Uncertainties***

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as revenue and expenses recognized during the reporting period. Actual results could differ from those estimates. Because the state of the economy and of the real estate market can significantly impact hotel operational performance and the estimated fair value of our assets, it is possible that the estimates and assumptions that have been utilized in the preparation of the consolidated financial statements could change.

**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Notes To Consolidated Financial Statements**  
**(In thousands, except share and per share data)**

***Investment in Hotel Properties***

At the time of acquisition, the Company allocates the purchase price of assets to asset classes based on the fair value of the acquired real estate, furniture, fixtures, and equipment, and intangible assets, if any, and the fair value of liabilities assumed, including debt. Acquisition date fair values are determined based on replacement costs, appraised values, and estimated fair values using methods similar to those used by independent appraisers including discounted cash flows and capitalization rates. Acquisition costs are expensed as incurred.

The Company's investments in hotel properties are recorded at cost and are depreciated using the straight-line method over an estimated useful life of 15 to 40 years for buildings and improvements and 3 to 12 years for furniture, fixtures, and equipment.

Development and construction costs of properties in development are capitalized including, where applicable, direct and indirect costs, including real estate taxes and interest costs. Development and construction costs and costs of significant improvements, replacements, or renovations are capitalized while costs of maintenance and repairs are expensed as incurred.

On a quarterly basis, the Company reviews the carrying value of each held for use hotel to determine if certain circumstances, known as triggering events, exist indicating impairment to the carrying value of the hotel or that depreciation periods should be modified. These triggering events include a significant change in the cash flows of or a significant adverse change in the business climate for a hotel. If facts or circumstances support the possibility of impairment, the Company will prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel and determine if the investment in such hotel is recoverable based on these undiscounted future cash flows. If the investment is not recoverable based on this analysis, an impairment charge will be taken, if necessary, to reduce the carrying value of the hotel to the hotel's fair value.

***Assets Held for Sale and Discontinued Operations***

A hotel is considered held for sale (a) when a contract for sale is entered into, a substantial, nonrefundable deposit has been committed by the purchaser, and sale is expected to occur within one year, or (b) if management has committed to and is actively engaged in a plan sell the property, the property is available for sale in its current condition, and it is probable the sale will be completed within one year. If a hotel is considered held for sale as of the most recent balance sheet presented or was sold in any period presented, the hotel property and the debt it collateralizes are shown as held for sale in all periods presented.

Depreciation of our hotels is discontinued at the time they are considered held for sale. If the fair value of the held for sale property less costs to sell is lower than the carrying value of the hotel, the Company will record an impairment loss. Impairment losses on held for sale properties may be subsequently recovered up to the amount of the cumulative impairment losses taken while the property is held for sale should future revisions to fair value estimates be required. If active marketing ceases or the property no longer meets the criteria to be classified as held for sale, the property is reclassified to held for use and measured at the lower of its (a) carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held for use, or (b) its fair value at the date of the subsequent decision not to sell.

Historically, we have presented the results of operations of hotel properties that have been sold or considered held for sale as discontinued operations. In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in ASU 2014-08 change the criteria for reporting a discontinued operation and require new disclosures of both discontinued operations and certain other significant disposals that do not meet the definition of a discontinued operation. Only disposals representing a strategic shift in operations that

**Condor Hospitality Trust, Inc. and Subsidiaries**  
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**(In thousands, except share and per share data)**

have a major effect on an entity's operations and financial results should be presented as discontinued operations subsequent to adoption. The Company adopted the pronouncement on October 1, 2014. As a result of this adoption, only the operations of hotels meeting the criteria to be considered held for sale prior to October 1, 2014 are included in discontinued operations for all periods presented as no individual hotel disposition has a major effect on our operations or financial results.

Gains on the sale of real estate are recognized when a property is sold, provided that the profit is determinable, meaning that collectability of the sales price is reasonably assured or can be estimated, and that the earnings process is complete, meaning that the seller is not obligated to perform significant activities after the sale in order to earn the profit. If these criteria are not met, the timing of the sale is determined based on various criteria related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, the gain is deferred and the finance, installment, or cost recovery method, as appropriate, is applied until the sales criteria are met. To the extent we sell a property and retain a partial ownership interest in the property, we generally recognize a gain to the extent of the third party ownership interest.

***Cash and Cash Equivalents***

Cash and cash equivalents includes cash and highly liquid investments with original maturities of three months or less when acquired, and are carried at cost which approximates fair value. The Company maintained a major portion of its deposits with Great Western Bank, a Nebraska Corporation, at December 31, 2014, and with US Bank at December 31, 2015. The balances on deposit at Great Western Bank and US Bank may at times exceed the federal deposit insurance limit, however, management believes that no significant credit risk exists with respect to the uninsured portion of these cash balances.

***Restricted Cash***

Restricted cash consists of cash held in escrow for the replacement of furniture and fixtures or for real estate taxes and property insurance as required under certain loan agreements. For purposes of the statement of cash flows, changes in restricted cash caused by changes in required reserves for real estate taxes or property insurance are shown as operating activities. Changes in restricted cash caused by changes in required reserves for the replacement of furniture and fixtures are shown as investing activities.

***Deferred Financing Cost***

Direct costs incurred in financing transactions are capitalized as deferred financing costs and amortized to interest expense over the term of the related loan using the effective interest method.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. Currently, debt issuance costs are recorded as an asset. The new standard is effective for the Company on January 1, 2016 and will be applied on a retrospective basis. The Company anticipates a change in our balance sheet presentation of deferred financing cost only because the standard does not alter the accounting for the amortization of debt issuance costs.

***Derivative Liabilities***

In the normal course of business, the Company is exposed to the effects of interest rate changes, and the Company may enter into derivative instruments including interest rate swaps, caps, and collars to manage or economically hedge interest rate risk. Additionally, the Company is required to include on the balance sheet certain bifurcated embedded derivative instruments such as conversion features in convertible instruments and certain common stock warrants.

**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Notes To Consolidated Financial Statements**  
**(In thousands, except share and per share data)**

All derivatives recognized by the Company are reported as derivative liabilities on the consolidated balance sheet and are adjusted to their fair value at each reporting date. Unrealized gains and losses on derivative instruments are included in unrealized derivative gain (loss) and realized gains and losses related to the interest rate instruments are included in interest expense on the consolidated statement of operations.

***Noncontrolling Interest***

Noncontrolling interest in SLP represents the limited partners' proportionate share of the equity in the operating partnership and long-term incentive plan (LTIP) units (see Note 12). Earnings and loss are allocated to noncontrolling interest in accordance with the weighted average percentage ownership of SLP during the period. Our ownership interest in SLP as of December 31, 2015, 2014, and 2013 was 90.1%, 99.9%, and 99.9%, respectively, which includes consideration of the common units of the limited partners as well as the LTIP units.

***Revenue Recognition***

Revenue consists of amounts derived from hotel operations, including the sale of rooms, food and beverage, and other ancillary amenities. Revenue from the operation of the hotel properties is recognized when rooms are occupied and services have been rendered. Sales, use, occupancy, and similar taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue in the consolidated statement of operations.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The original updated accounting guidance was effective for annual and interim reporting periods in fiscal years beginning after December 15, 2016, however, in July 2015, the FASB approved a one year delay of the effective date to fiscal years beginning after December 15, 2017. As such, the standard will be effective for the Company on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

***Income Taxes***

The Company qualifies and intends to continue to qualify as a REIT under applicable provisions of the Internal Revenue Code (the "Code"), as amended. In general, under such Code provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income, will not be subject to federal income tax to the extent of the income currently distributed to shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will be unable to re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT, unless we satisfy certain relief provisions. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. Except with respect to the TRS, the Company does not believe that it will be liable for significant federal or state income taxes in future years.

The Company has not declared a common stock dividend since 2008. In December 2013, the Company announced the suspension of the regular dividends on its outstanding preferred stock to preserve capital and improve liquidity. The Company will monitor requirements to maintain its REIT status and will routinely evaluate the dividend policy.

A REIT will incur a 100% tax on the net gain derived from any sale or other disposition of property that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. We do not believe any of our hotels were held primarily for sale in the ordinary course of our trade or business. However, if the IRS would

**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Notes To Consolidated Financial Statements**  
**(In thousands, except share and per share data)**

successfully assert that we held such hotels primarily for sale in the ordinary course of our business, the gain from such sales could be subject to a 100% prohibited transaction tax.

Taxable income from non-REIT activities managed through the TRS, which is taxed as a C-Corporation, is subject to federal, state, and local income taxes. We account for the federal income taxes of our TRS using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities of the TRS and their respective tax bases and for operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and projections for future taxable income over the periods in which the remaining deferred tax assets are deductible. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not (defined as a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income.

The Company may recognize a tax benefit from an uncertain tax position when it is more-likely-than-not (defined as a likelihood of more than 50%) that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on its technical merits. If a tax position does not meet the more-likely-than-not recognition threshold, despite the Company's belief that its filing position is supportable, the benefit of that tax position is not recognized in the statement of operations. The Company recognizes interest and penalties, as applicable, related to unrecognized tax benefits as a component of income tax expense. The Company recognizes unrecognized tax benefits in the period that the uncertainty is eliminated by either affirmative agreement to the uncertain tax position by the applicable taxing authority or by expiration of the applicable statute of limitations. For the years ended December 31, 2015, 2014, and 2013, the Company did not record any uncertain tax positions.

***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are utilized to determine the value of certain liabilities, to perform impairment assessments, to account for hotel acquisitions, and for disclosure purposes. Fair value measurements are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Directly or indirectly observable inputs other than quoted prices included in Level 1. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-derived valuations whose inputs are observable.

Level 3: Unobservable inputs for which there is little or no market data, which require a reporting entity to develop its own assumptions.

Our estimates of fair value were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or valuation techniques may have a material effect on estimated fair value measurements. We classify assets and liabilities in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

With the exception of fixed rate debt (see Note 5), the carrying amount of the Company's financial instruments approximates their fair values due to their short-term nature or variable interest rates.



**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Notes To Consolidated Financial Statements**  
**(In thousands, except share and per share data)**

***Stock-Based Compensation***

Stock-based compensation for awards with a service condition only is measured based on the fair value of the award on the date of grant and recognized as compensation expense on a straight line basis over the service period. The compensation cost related to awards for which vesting is contingent upon achieving a market based criteria is measured at the fair value of the award on the date of grant, including consideration of the market criteria, and amortized on a straight line basis over the performance period. Compensation cost is recognized as additional paid-in capital for awards of the Company's common stock and as noncontrolling interest for LTIP awards of SLP common units.

***Liquidity***

The following disclosure and analysis is pursuant to ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 requires the Company to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about its ability to continue as a going concern within one year after the date the financial statements are issued. To satisfy the requirements of this standard, the Company's evaluation considered a 15 month period beginning January 1, 2016.

Our short-term liquidity requirements consist primarily of operating expenses and other expenditures directly associated with our hotel properties, recurring maintenance and capital expenditures necessary to maintain our hotels in accordance with brand standards, interest expense and scheduled principal payments on outstanding indebtedness, and restricted cash funding obligations.

Our longer-term liquidity requirements consist primarily of the costs of acquiring additional hotel properties, renovations and other one-time capital expenditures that periodically are made with respect to our hotel properties, and scheduled debt payments, including maturing loans. Additionally, the Company has an obligation to Real Estate Strategies, L.P. ("RES") to use approximately \$1.6 million of proceeds from a capital infusion in 2012 to pursue hotel acquisitions (see Note 15).

We expect to meet our short-term liquidity requirements through net cash provided by operations, existing cash balances and working capital, short-term borrowings under our revolving credit agreement with Great Western Bank, and the release of restricted cash upon the satisfaction of usage requirements. At December 31, 2015, the Company had \$4.9 million of cash and cash equivalents on hand and \$2.5 million of unused availability under its revolving credit agreement. We expect our existing cash balances and cash provided by operations will be adequate to fund operating requirements, service debt, and fund required capital expenditures, which are currently estimated at between \$3.5 million and \$4.5 million through March 2017, for the properties we currently own.

Possible sources of liquidity to fund debt maturities, pay accumulated preferred dividends, fund acquisitions, and meet other obligations include additional secured or unsecured debt financings and proceeds from public or private issuances of debt or equity securities. As discussed further in the Subsequent Events footnote to the consolidated financial statements, on March 16, 2016, the Company closed on a series of agreements which provided the Company with net proceeds of in excess of \$7.0 million after the payment of expenses, the redemption of certain classes of preferred stock, and the payment of all accumulated preferred dividends.

Prior to the consideration of any asset sales or our ability to refinance debt subsequent to December 31, 2015, contractual principal payments on our debt outstanding, including normal amortization, total \$13.6 million through March 31, 2017, including the February 1, 2017 maturity of one of our GE loans debt with a balance at December 31, 2015 of \$10.8 million. Prior to its maturity, our company anticipates refinancing the GE loan with GE or another lender. As a result of our improved financial condition and the terms of the lending arrangements we have entered into in recent periods, we believe we will be able to refinance this debt on similar or perhaps more favorable terms. However, notwithstanding our perception that the lending market has improved, we may not be successful in our efforts to refinance or repay our maturing debt.

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At December 31, 2015, we have 16 hotels held for sale which, if sold, we believe will generate \$12.6 million in net proceeds after debt repayment. Three of these asset sales were completed in January 2016, providing the Company with net proceeds after debt repayment of \$2.7 million. Over the last five years, we have sold 68 hotels. Although it is management's plan to use net proceeds after debt repayment from future asset sales to fund future acquisitions, if necessary the Company believes that cash generated from asset dispositions will be sufficient to fund any shortfalls associated with future debt maturities. However, with respect to future hotel sales, we cannot predict whether we will be able to find buyers for identified assets at prices and other terms acceptable to us, whether potential buyers will be able to secure financings, and the length of time needed to find a buyer and to close the sale of a property.

Significant progress has been made in reducing future debt maturities and improving the Company's liquidity position since December 31, 2014. The execution of management's plans, as described above, is dependent upon future hotel sales and/or the ability to refinance existing maturing debt which cannot be assured but which we believe is probable. Based on these improvements, at December 31, 2015, management has concluded that there is no longer substantial doubt regarding the Company's ability to continue as a going concern.

***Reclassifications***

Certain amounts in prior year financial statements have been reclassified to conform to current year presentation.

**NOTE 2. INVESTMENT IN HOTEL PROPERTIES**

Investments in hotel properties consisted of the following at December 31:

	As of December 31,					
	2015			2014		
	Held for sale	Held for use	Total	Held for sale	Held for use	Total
Land	\$ 3,088	\$ 15,779	\$ 18,867	\$ 14,154	\$ 11,334	\$ 25,488
Acquired below market						
lease intangibles	883	-	883	883	-	883
Buildings, improvements, vehicle	30,868	107,238	138,106	75,240	77,969	153,209
Furniture and equipment	9,188	21,400	30,588	18,442	15,776	34,218
Construction-in-progress	2	453	455	346	441	787
	44,029	144,870	188,899	109,065	105,520	214,585
Less accumulated depreciation	(20,262)	(37,938)	(58,200)	(37,072)	(38,331)	(75,403)
	<u>\$ 23,767</u>	<u>\$ 106,932</u>	<u>\$ 130,699</u>	<u>\$ 71,993</u>	<u>\$ 67,189</u>	<u>\$ 139,182</u>

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**NOTE 3. ACQUISITION OF HOTEL PROPERTIES**

During 2015, we acquired three wholly-owned hotel properties. The allocation of the purchase price based on fair value, which was determined using Level 3 fair value inputs, was as follows:

<u>Hotel</u>	<u>Acquisition date</u>	<u>Land</u>	<u>Building improvements and vehicle</u>	<u>Furniture and equipment</u>	<u>Total purchase price</u>	<u>Assumption of debt</u>	<u>Debt originated at acquisition</u>	<u>Issuance of SLP common units</u>	<u>Net cash</u>
Hotel Indigo Atlanta, GA	10/2/2015	\$ 800	\$ 8,700	\$ 1,500	\$ 11,000	\$ -	\$ 5,000	150	\$ 5,850
Marriott Courtyard Jacksonville, FL	10/2/2015	2,100	11,050	850	14,000	-	10,100	150	3,750
Springhill Suites San Antonio, TX	10/1/2015	1,597	14,353	1,550	17,500	11,220	-	150	6,130
<b>Total</b>		<u>\$ 4,497</u>	<u>\$ 34,103</u>	<u>\$ 3,900</u>	<u>\$ 42,500</u>	<u>\$ 11,220</u>	<u>\$ 15,100</u>	<u>450</u>	<u>\$ 15,730</u>

The \$42,500 purchase price was funded with the assumption of one loan with an aggregate outstanding principal balance of \$11,220 and two newly originated GE loans totaling \$15,100. The remaining \$16,180 was funded with approximately \$14,900 in cash, approximately \$830 of borrowings from the Company's existing credit facility with Great Western Bank, and the issuance of common units from SLP. A total of 2,298,879 common units were issued with a value of \$450.

Included in the consolidated statement of operations for the year ended December 31, 2015 is total revenue of \$2,611 and total net income of \$32 which represent the results of operations for these hotels since the date of acquisition.

There were no hotel acquisitions in 2014 or 2013.

***Pro Forma Results (Unaudited)***

The following condensed pro forma financial data is presented as if all acquisitions completed since January 1, 2015 had been completed on January 1, 2014. The pro forma results below exclude acquisition costs of \$684 for the year ended December 31, 2015. The condensed pro forma financial data is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated on January 1, 2014, nor do they purport to represent the results of operations for future periods.

	<u>Year ended</u>	
	<u>2015</u>	<u>2014</u>
Total revenue	\$ 66,028	\$ 65,505
Operating income	\$ 5,339	\$ 2,832
Net income attributable to common shareholders	\$ 10,441	\$ (24,380)
Net income per share available to common shareholders-basic	\$ 2.14	\$ (6.26)
Net income per share available to common shareholders-diluted	\$ 0.02	\$ (6.26)

**NOTE 4: DISPOSITION OF HOTEL PROPERTIES AND DISCONTINUED OPERATIONS**

As of December 31, 2015, the Company had 16 hotels classified as held for sale. At the beginning of 2015, the Company had 12 hotels held for sale and during the year classified an additional 23 hotels as held for sale. Seventeen of these hotels were sold during 2015, and two of the hotels were reclassified as held for use in 2015 due to changes in the properties' market condition. None of the hotels reclassified as held for sale since the Company's

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adoption of ASU 2014-08 on October 1, 2014 represent a strategic shift that has (or will have) a major effect on the entity's operations and financial results. As a result, only hotels classified as held for sale prior to October 1, 2014, two of which remain unsold at December 31, 2015, are included in discontinued operations with all other hotels, including those subsequently sold or classified as held for sale, reported in continuing operations.

In 2015, 2014, and 2013, the Company sold 17 hotels, 13 hotels, and 17 hotels, respectively, resulting in total gains of \$7,759, \$2,749, and \$1,853, respectively, of which \$4,996, \$0, and \$0, respectively, was included in continuing operations.

Included in these 2015 sales were two hotels in Alexandria, Virginia that were sold on July 13, 2015 for a combined gross sales price of \$19,000. These hotels represent a significant disposition; therefore, their operating results are disclosed. The Alexandria Comfort Inn and Days Inn hotels had combined net earnings (loss) of (\$665), \$761, and (\$81) for the years ended December 31, 2015, 2014, and 2013, respectively. Net earnings for the year ended December 31, 2015 include impairment expense of \$1,020 which was recognized following the hotels classification as held for sale. Earnings (loss) attributable to noncontrolling interest related to these properties for the years ended December 31, 2015, 2014, and 2013 were \$3 \$1, \$0, respectively.

The Company allocates interest expense to discontinued operations for debt that is to be assumed or that is required to be repaid as a result of the disposal transaction. The following table sets forth the components of discontinued operations for the years ended December 31, 2015, 2014 and 2013:

	Year ended December 31,		
	2015	2014	2013
Revenue	\$ 4,296	\$ 14,969	\$ 25,228
Hotel and property operations expense	(3,127)	(11,545)	(20,680)
Depreciation and amortization expense	-	(112)	(1,036)
General and administrative expense	-	-	-
Net gain on dispositions of assets	2,993	2,749	1,853
Impairment recovery (loss)	120	(1,652)	(4,648)
Interest expense	(300)	(1,237)	(2,878)
Loss on debt extinguishment	-	(120)	(706)
Income tax expense	-	-	-
Gain (loss) from discontinued operations	<u>\$ 3,982</u>	<u>\$ 3,052</u>	<u>\$ (2,867)</u>
Capital expenditures	<u>\$ 111</u>	<u>\$ 360</u>	<u>\$ 1,255</u>

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**NOTE 5. LONG-TERM DEBT**

Long-term debt, including debt related to hotel properties held for sale, consisted of the following loans payable at December 31:

Lender	Balance at December 31, 2015	Interest rate at December 31, 2015	Maturity	Amortization provision	Properties encumbered at December 31, 2015	Balance at December 31, 2014
<b>Fixed rate debt</b>						
GE Capital Franchise Finance Corporation	\$ 10,819	7.17%	02/2017	15 years	4	\$ 11,335
GE Capital Franchise Finance Corporation	3,864	4.75%	02/2018	15 years	4	4,057
GE Capital Franchise Finance Corporation	-					10,667
Great Western Bank	-					7,885
Citigroup Global Markets Realty	-					11,869
Elkhorn Valley Bank	-					2,583
Middle Patent Capital, LLC	-					8,300
Cantor Commercial Real Estate Lending	5,826	4.25%	11/2017	30 years	1	5,936
Morgan Stanley Mortgage Capital Holdings	27,542	5.83%	12/2017	25 years	22	28,630
Total fixed rate debt	<u>48,051</u>					<u>91,262</u>
<b>Variable rate debt</b>						
Great Western Bank	3,215(6)	4.50% (1)	06/2018	Interest only	4	1,425
GE Capital Franchise Finance Corporation	4,990	3.67% (2)	11/2020	25 years	1	-
GE Capital Franchise Finance Corporation	10,079	3.67% (2)	11/2020	25 years	1	-
The Huntington National Bank	9,981	2.49% (3)	11/2020	25 years	4	-
LMREC 2015 - CREI, Inc. (Latitude)	11,220	6.50% (4)	05/2018	\$12 monthly (5)	1	-
Total variable rate debt	<u>39,485</u>				42	<u>1,425</u>
Total long-term debt	<u>\$ 87,536</u>					<u>\$ 92,687</u>
Less: Debt related to hotel properties held for sale	<u>(17,218)</u>					<u>(47,536)</u>
Total long-term debt held for use	<u>\$ 70,318</u>					<u>\$ 45,151</u>

(1) Prime rate plus 1%; was fixed rate debt at 4.5% prior to amendment on June 5, 2015

(2) 90-day LIBOR plus 3.25%

(3) 30-day LIBOR plus 2.25%, fixed at 4.13% after giving effect to interest rate swap

(4) 30-day LIBOR plus 6.25%

(5) \$12 monthly payment begins May 2016

(6) Total availability under this revolving credit facility was \$5,733 at December 31, 2015; commitment fee on unused facility is 0.25%

At December 31, 2015, we had long-term debt of \$70,318 associated with assets held for use with a weighted average term to maturity of 3.0 years and a weighted average interest rate of 5.13%. Of this total, at December 31, 2015, \$33,037 is fixed rate debt with a weighted average term to maturity of 1.8 years and a weighted average interest rate of 5.64% and \$37,281 is variable rate debt with a weighted average term to maturity of 4.0 years and a weighted average interest rate of 4.67%. At December 31, 2014, we had long-term debt of \$45,151 associated with assets held for use with a weighted average term to maturity of 2.4 years and a weighted average interest rate of 5.70%, all of which was fixed rate debt.

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Debt is classified as held for sale if the properties collateralizing it are held for sale. Debt associated with assets held for sale is classified in the table below based on its contractual maturity although the balances are expected to be repaid within one year upon the sale of the related hotel properties. Aggregate annual principal payments on debt for the next five years and thereafter are as follows:

	<b>Held for sale</b>	<b>Held for use</b>	<b>Total</b>
2016	\$ 681	\$ 2,051	\$ 2,732
2017	14,333	29,016	43,349
2018	2,204	16,108	18,312
2019	-	686	686
2020	-	22,457	22,457
Total	<u>\$ 17,218</u>	<u>\$ 70,318</u>	<u>\$ 87,536</u>

***Financial Covenants***

The Company's debt agreements contain requirements as to the maintenance of minimum levels of debt service and fixed charge coverage and required loan-to-value and leverage ratios, and place certain restrictions on dividends. As of December 31, 2015, we were in compliance with our financial covenants.

If we fail to pay our indebtedness when due, fail to comply with covenants or otherwise default on our loans, unless waived, we could incur higher interest rates during the period of such loan defaults, be required to immediately pay our indebtedness, and ultimately lose our hotels through lender foreclosure if we are unable to obtain alternative sources of financing with acceptable terms. Our Great Western Bank and certain of our GE facilities contain cross-default provisions which would allow Great Western Bank and GE to declare a default and accelerate our indebtedness to them if we default on our other loans and such default would permit that lender to accelerate our indebtedness under any such loan. As of December 31, 2015, we are not in default of any of our loans.

***Convertible Loan***

On January 9, 2014, we entered into an unsecured convertible loan agreement with RES, for a revolving line of credit of up to \$2,000 with an annual interest rate equal to LIBOR plus 7%. During the first quarter of 2014, the Company borrowed the full amount of \$2,000 available under the loan agreement.

Upon issuance, it was determined that the conversion feature should be bifurcated from its host instrument and accounted for as a freestanding derivative liability as there was no explicit limit to the number of shares to be delivered upon settlement of the conversion option. The initial fair value of the conversion feature was determined to be \$151 and was recorded as a derivative liability with the offset recorded as a debt discount against the convertible loan.

RES applied the amount owed to it under the loan to purchase 1,250,000 shares of newly issued common stock. On June 11, 2014, the effective purchase date, \$1,950, the fair value of the shares issued, was recorded in equity, and a gain of \$88 was recorded in other income to reflect the change in fair value from March 31, 2014 to the date of conversion of the convertible loan, amortized debt discount, and the separately accounted for embedded derivative.

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**NOTE 6: FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS**

Our determination of fair value measurements is based on the assumptions that market participants would use in pricing the asset or liability. At December 31, 2015, the Company's derivative instruments were the only financial instruments measured in the financial statements at fair value on a recurring basis. Nonrecurring fair value measurements were utilized in the determination of the fair value of acquired hotel properties and related assumed debt during the year ended December 31, 2015 (see Note 3) and in the valuation of impaired hotels in the years ended December 31, 2015, 2014, and 2013.

***Derivative Instruments***

Currently, the Company uses derivatives, such as interest rate swaps and caps, to manage its interest rate risk. In 2015, two such positions were entered into by the Company. The fair value of interest rate positions is determined using the standard market methodology of netting the discounted expected future cash receipts and payments. Variable interest rates used in the calculation of projected receipts and payments on the positions are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. Derivatives expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the agreements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions. These interest rate positions at December 31, 2015 are as follows:

Associated debt	Type	Terms	Effective date	Maturity date	Notional amount at December 31, 2015
Huntington	Swap	Swaps 30-day LIBOR + 2.25% for fixed rate of 4.13%; cancellable at Company's option anytime after 11/01/2018 without penalty	11/2015	11/2020	\$ 9,981 (1)
Latitude	Cap	Caps 30-day LIBOR at 2.5%	10/2015	05/2016	\$ 11,220 (1)

(1) Notional amounts amortize consistently with the principal amortization of the associated loans

The terms of the Series C convertible preferred stock (see Note 10) include an antidilution provision that requires an adjustment in the common stock conversion ratio should subsequent issuances of the Company's common stock be issued below the instruments' original conversion price of \$8.00 per share. Accordingly, we bifurcated the embedded conversion feature which is shown as a derivative liability recorded at fair value on the consolidated balance sheet. As a result of a subscription rights offering by the Company which concluded on June 6, 2014 (see Note 8), the conversion price of the Series C convertible stock, pursuant to its terms, was adjusted to \$1.60, the exercise price of the subscription rights for a share of common stock. The antidilution provision continues to be in effect, and treatment of the embedded conversion feature as a derivative liability remains unchanged.

The agreement setting forth the terms of the common stock warrants issued to the holders of the Series C convertible preferred stock (see Note 10) also includes an antidilution provision that requires a reduction in the warrant's exercise price of \$9.60 should the conversion ratio of the Series C convertible preferred stock be adjusted due to antidilution provisions. Accordingly, the warrants do not qualify for equity classification, and, as a result, the fair value of the derivative is shown as a derivative liability on the consolidated balance sheet. As a result of a subscription rights offering by the Company which concluded on June 6, 2014 (see Note 8), the exercise price of the warrants for a share of common stock was adjusted to \$1.92, equal to 120% of the adjusted conversion price of the Series C convertible preferred stock. The antidilution provision remains in effect, and treatment of the warrants as a derivative liability remains unchanged.

The fair value of the derivative liabilities recognized in connection with the Series C convertible preferred stock is determined by the Monte Carlo simulation method. The Monte Carlo simulation method is a generally accepted statistical method used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of future expected stock prices of the Company and its peer group and minimizes standard error.

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All derivatives recognized by the Company are reported as derivative liabilities on the consolidated balance sheet and are adjusted to their fair value at each reporting date. Unrealized gains and losses on derivative instruments are included in unrealized derivative gain (loss) and realized gains and losses related to the interest rate instruments are included in interest expense on the consolidated statement of operations. The following tables provide the fair value of the Company's financial liabilities carried at fair value and measured on a recurring basis:

	<b>Fair value at</b>			
	<b>December 31, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Series C preferred embedded derivative	\$ 6,271	\$ -	\$ -	\$ 6,271
Warrant derivative	2,411	-	-	2,411
Interest rate derivatives	77	-	77	-
Total derivatives	<u>\$ 8,759</u>	<u>\$ -</u>	<u>\$ 77</u>	<u>\$ 8,682</u>

	<b>Fair value at</b>			
	<b>December 31, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Series C preferred embedded derivative	\$ 13,804	\$ -	\$ -	\$ 13,804
Warrant derivative	6,533	-	-	6,533
Total derivatives	<u>\$ 20,337</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,337</u>

There were no transfers between levels during the year to date ended December 31, 2015.

The following table presents a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that use significant unobservable inputs (Level 3) and the related realized and unrealized gains (losses) recorded in the consolidated statement of operations during the period:



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	Year ended December 31,						
	2015			2014			
	Series C preferred embedded derivative	Warrant derivative	Total	Series C preferred embedded derivative	Warrant derivative	Convertible loan embedded derivative	Total
Fair value, beginning of period	\$ 13,804	\$ 6,533	\$ 20,337	\$ 3,761	\$ 2,146	\$ -	\$ 5,907
Net unrealized (gains) losses on derivatives	(7,533)	(4,122)	(11,655)	10,043	4,387	-	14,430
Purchases and issuances	-	-	-	-	-	151	151
Sales and settlements, included in derivative gain (loss)	-	-	-	-	-	(151)	(151)
Gross transfers in	-	-	-	-	-	-	-
Gross transfers out	-	-	-	-	-	-	-
Fair value, end of period	<u>\$ 6,271</u>	<u>\$ 2,411</u>	<u>\$ 8,682</u>	<u>\$ 13,804</u>	<u>\$ 6,533</u>	<u>\$ -</u>	<u>\$ 20,337</u>
Changes in realized (gains) losses, included in income on instruments held at end of period	-	-	-	-	-	-	-
Changes in unrealized (gains) losses, included in income on instruments held at end of period	<u>\$ (7,533)</u>	<u>\$ (4,122)</u>	<u>\$ (11,655)</u>	<u>\$ 10,043</u>	<u>\$ 4,387</u>	<u>\$ -</u>	<u>\$ 14,430</u>

***Fair Value of Debt***

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of debt obligations with similar credit policies. Credit spreads take into consideration general market conditions and maturity. The inputs utilized in estimating the fair value of debt are classified in Level 2 of the fair value hierarchy. The carrying value and estimated fair value of the Company's debt is presented in the table below:

	Carrying value at December 31,		Estimated fair value at December 31,	
	2015	2014	2015	2014
Held for use	\$ 70,318	\$ 45,151	\$ 71,454	\$ 44,594
Held for sale	17,218	47,536	17,825	47,744
Total	<u>\$ 87,536</u>	<u>\$ 92,687</u>	<u>\$ 89,279</u>	<u>\$ 92,338</u>

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***Impaired Hotel Properties***

In the performance of impairment analysis for both held for sale and held for use properties, fair value is determined with the assistance of independent real estate brokers and through the use of revenue multiples based on the Company's experience with hotel sales as well as available industry information. For held for sale properties, estimated selling costs are based on our experience with similar asset sales. These are considered Level 3 inputs. The amount of impairment and recovery of previously recorded impairment recognized in the years ended December 31, 2015, 2014, and 2013 is shown in the table below:

	2015		Year ended December 31, 2014		2013	
	Number of hotels	Impairment (loss) recovery	Number of hotels	Impairment (loss) recovery	Number of hotels	Impairment (loss) recovery
<b><u>Continuing operations</u></b>						
<b>Held for use hotels</b>						
Impairment loss	1	\$ (1,537)	-	\$ -	2	\$ (2,238)
Recovery of impairment	-	-	1	119	-	-
Subtotal Held for use hotels	1	(1,537)	1	119	2	(2,238)
<b>Held for sale hotels</b>						
Impairment loss	2	(838)	-	-	-	-
Recovery of impairment	-	-	-	-	-	-
Subtotal Held for sale hotels	2	(838)	-	-	-	-
<b>Sold hotels</b>						
Impairment loss	3	(1,538)	2	(1,388)	1	(200)
Recovery of impairment	1	85	-	-	-	-
Subtotal Sold hotels	4	(1,453)	2	(1,388)	1	(200)
Net impairment loss reported in continuing operations	7	\$ (3,828)	3	\$ (1,269)	3	\$ (2,438)
<b><u>Discontinued operations</u></b>						
<b>Sold hotels</b>						
Impairment loss	1	(117)	8	(2,450)	14	(4,819)
Recovery of impairment	3	237	5	798	5	171
Subtotal sold hotels	4	120	13	(1,652)	19	(4,648)
Net impairment recovery (loss) reported in discontinued operations	4	120	13	(1,652)	19	(4,648)
Total net impairment	11	\$ (3,708)	16	\$ (2,921)	22	\$ (7,086)

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**NOTE 7. SERIES B REDEEMABLE PREFERRED STOCK**

At December 31, 2015 there were 332,500 shares of 10.0% Series B preferred stock outstanding. The shares were sold on June 3, 2008 for \$25.00 per share and bear a liquidation preference of \$25.00 per share.

Dividends on the Series B preferred stock are cumulative and are payable quarterly in arrears on each March 31, June 30, September 30 and December 31, or, if not a business day, the next succeeding business day, at the annual rate of 10.0% of the \$25.00 liquidation preference per share, equivalent to a fixed annual amount of \$2.50 per share. Dividends on the Series B preferred stock accrue whether or not the Company has earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared, and whether or not such dividends are prohibited by agreement. Commencing with dividends due on December 31, 2013, the Company suspended payment of dividends on its Series B preferred stock to preserve capital and improve liquidity. Unpaid dividends on the Series B preferred stock will not bear interest. Unpaid dividends are \$1,870 or \$5.625 per share, as of December 31, 2015. These dividends are not reflected as an obligation on the balance sheet. Holders of the Series B preferred stock generally have no voting rights. However, if the dividends on the Series B preferred stock are in arrears for six or more quarterly periods (whether or not consecutive), holders of the Series B preferred stock, voting together as a single class with all series of preferred stock for which like voting rights are exercisable, will be entitled to elect two directors. Until all such dividend arrearages and dividends for the then current period have been paid, at each annual meeting the holders of Series A preferred stock and Series B preferred stock, voting as one group, will be entitled to elect two directors to serve until the next annual meeting. The terms of the directors will earlier terminate within twelve months after all dividend arrearages have been paid. At the Company's annual meeting on June 10, 2015, holders of Series A preferred stock and Series B preferred stock, voting as one class, elected two directors.

The Series B preferred stock will, with respect to dividend rights and rights upon the Company's liquidation, dissolution, or winding up, rank: (a) senior to the Company's common stock, (b) senior to all classes or series of preferred stock issued by the Company and ranking junior to the Series B preferred stock with respect to dividend rights or rights upon the Company's liquidation, dissolution or winding up, (c) on a parity with the Company's Series A preferred stock and Series C convertible preferred stock and with all classes or series of preferred stock issued by the Company and ranking on a parity with the Series B preferred stock with respect to dividend rights or rights upon the Company's liquidation, dissolution or winding up and (d) junior to all of the Company's existing and future indebtedness.

The Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares unless it has also paid (or set aside for payment) the full cumulative distributions on the preferred shares for the current and all past dividend periods. The Series B preferred stock has no stated maturity and is not subject to any sinking fund or mandatory redemption (except as described below).

The Company may redeem the Series B preferred stock, in whole or in part, at any time or from time to time for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends. Also, upon a change of control, each outstanding share of the Company's Series B preferred stock will be redeemed for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends. At December 31, 2015, no events have occurred that would lead the Company to believe redemption of the preferred stock, due to a change of control is probable.

As discussed further in Subsequent Events (see Note 17), on March 16, 2016, the Company issued a notice to redeem the Series B preferred stock on April 15, 2016 at \$25.00 per share plus all accrued and unpaid dividends through the redemption date and the funds to complete the redemption were placed into escrow. With notice given and the redemption funds deposited in escrow, all rights of the holders of the Series B preferred stock terminated, except the right to receive the redemption price.

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**NOTE 8. COMMON STOCK**

The Company's common stock is duly authorized, full paid, and non-assessable.

On March 11, 2015, an executive officer exercised a warrant to purchase 227,894 shares at the price of \$1.52 per share (see Note 12).

The Company concluded a subscription rights offering on June 6, 2014. Each subscription right entitled its holder to purchase one share of common stock of the Company for \$1.60 per share. Subscription rights to purchase 1,787,204 shares of common stock were exercised for \$2,860, of which \$2,000 was paid by the conversion of a loan owed by the Company to RES (see Note 5). The Company incurred issuance costs of \$218.

**NOTE 9. SERIES A PREFERRED STOCK**

On December 30, 2005, the Company offered and sold 1,521,258 shares of 8% Series A preferred stock. At December 31, 2015, 803,270 shares of Series A preferred stock remained outstanding.

Dividends on the Series A preferred stock are cumulative and are payable monthly in arrears on the last day of each month, at the annual rate of 8% of the \$10.00 liquidation preference per share, equivalent to a fixed annual amount of \$.80 per share. The Company may redeem the Series A preferred stock, in whole or in part, at any time or from time to time for cash at a redemption price of \$10.00 per share, plus all accrued and unpaid dividends. Commencing with dividends due on December 31, 2013, the Company suspended payment of dividends on its Series A preferred stock to preserve capital and improve liquidity. Unpaid dividends will accumulate and bear additional dividends at 8%, compounded monthly. Accumulated but unpaid dividends are \$1,452, or \$1.807 per share, as of December 31, 2015. These dividends are not reflected as an obligation on the balance sheet. Holders of the Series A preferred stock generally have no voting rights. However, if dividends on the Series A preferred stock are in arrears for six consecutive months or nine months (whether or not consecutive) in any twelve-month period, holders of the Series A preferred stock, voting together as a single class with all series of preferred stock for which like voting rights are exercisable, will be entitled to elect two directors. Until all such dividend arrearages and dividends for the then current period have been paid, at each annual meeting the holders of Series A preferred stock and Series B preferred stock, voting as one group, will be entitled to elect two directors to serve until the next annual meeting. The terms of the directors will earlier terminate within twelve months after all dividend arrearages have been paid. At the Company's annual meeting on June 10, 2015, holders of the Series A preferred stock and Series B preferred stock, voting as one class, elected two directors.

The Series A preferred stock with respect to dividend rights and rights upon the Company's liquidation, dissolution or winding up, ranks senior to all classes or series of the Company's common stock, senior or on parity with all other classes or series of preferred stock and junior to all of the Company's existing and future indebtedness. Upon liquidation all Series A preferred stock will be entitled to \$10.00 per share plus accumulated but undeclared dividends. The Company will not pay any distribution, or set aside any funds for the payment of distributions, on its common shares unless it has also paid (or set aside for payment) the full cumulative distributions on the preferred shares for the current and all past dividend periods. The outstanding preferred shares do not have any maturity date, and are not subject to mandatory redemption.

The Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares, unless it has also paid (or set aside for payment) the full cumulative distributions on the preferred shares for the current and all past dividend periods. The Series A preferred stock has no stated maturity and is not subject to any sinking fund or mandatory redemption.

As discussed further in Subsequent Events (see Note 17), on March 16, 2016, the Company issued a notice to redeem the Series A preferred stock on April 15, 2016 at \$10.00 per share plus all accrued and unpaid dividends through the redemption date and the funds to complete the redemption were placed into escrow. With notice given

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and the redemption funds deposited in escrow, all rights of the holders of the Series A preferred stock terminated, except the right to receive the redemption price.

**NOTE 10. SERIES C CONVERTIBLE PREFERRED STOCK AND WARRANTS**

The Company entered into a Purchase Agreement dated November 16, 2011 for the issuance and sale of Series C convertible preferred stock and warrants under a private transaction to RES. In two closings on February 1, 2012 and February 15, 2012, the Company completed the sale to RES of 3,000,000 shares of Series C convertible preferred stock and warrants to purchase shares of common stock.

Each of the 3,000,000 shares of Series C convertible preferred stock is convertible, in whole or in part, at RES's option, at any time, but subject to RES's beneficial ownership limitation, into the number of shares of common stock equal to the \$10.00 per share liquidation preference, divided by the conversion price then in effect. As a result of the subscription rights offering concluded on June 6, 2014, the conversion price was adjusted downward from \$8.00 to \$1.60, equal to the public offering price of our common stock in the subscription rights offering. Pursuant to the terms of warrants held by RES to purchase up to 3,750,000 shares of common stock, the exercise price of the warrants was adjusted downward from \$9.60 to \$1.92 per share, equal to 120% of the adjusted conversion price of the Series C convertible preferred stock.

Each share of Series C convertible preferred stock is entitled to a dividend of \$0.625 per year payable in equal quarterly dividends. Each share of Series C convertible preferred stock has a liquidation preference of \$10.00 per share, in cash, plus an amount equal to any accrued and unpaid dividends. With respect to dividend rights and rights upon the Company's liquidation, dissolution, or winding up, the Series C convertible preferred stock ranks: (a) on a parity with the Series A preferred stock and Series B preferred stock and other future series of preferred stock designated to rank on a parity, and (b) senior to the common stock and other future series of preferred stock designated to rank junior, and (c) junior to the Company's existing and future indebtedness. Commencing with dividends due on December 31, 2013, the Company suspended payment of dividends on its Series C cumulative preferred stock to preserve capital and improve liquidity. Unpaid dividends will accumulate and bear additional dividends at 6.25%, compounded quarterly. Accumulated but unpaid dividends are \$4,492, or \$1.497 per share, as of December 31, 2015. These dividends are not reflected as an obligation on the balance sheet.

The Series C convertible preferred stock, at the option of the holder, is convertible at any time into common stock at a conversion price of \$1.60 for each share of common stock, which is equal to the rate of 6.25 shares of common stock for each share of Series C convertible preferred stock. A holder of Series C convertible preferred stock will not have conversion rights to the extent the conversion would cause the holder and its affiliates to beneficially own more than 34% of voting stock (the "Beneficial Ownership Limitation"). "Voting stock" means capital stock having the power to vote generally for the election of directors of the Company. A holder of warrants would similarly not have exercise rights to the extent the exercise of a warrant would cause the holder and its affiliates to own capital stock in an amount exceeding the Beneficial Ownership Limitation.

The Series C convertible preferred stock will vote with the common stock as one class, subject to certain voting limitations. For any vote, the voting power of the Series C convertible preferred stock will be equal to the lesser of: (a) 0.78625 vote per share or (b) an amount of votes per share such that the vote of all shares of Series C convertible preferred stock in the aggregate equal 34% of the combined voting power of all the Company voting stock, minus an amount equal to the number of votes represented by the other shares of voting stock beneficially owned by RES and its affiliates.

As long as RES has the right to designate two or more directors to the Company Board of Directors pursuant to the Directors Designation Agreement, the following requires the approval of RES and IRSA Inversiones y Representaciones Sociedad Anónima ("IRSA"):

- the merger, consolidation, liquidation or sale of substantially all of the assets of the Company;

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- the sale by the Company of common stock or securities convertible into common stock equal to 20% or more of the outstanding common stock or voting stock; or
- any Company transaction of more than \$120 in which any of its directors or executive officers or any member of their immediate family will have a material interest, exclusive of employment compensation and interests arising solely from the ownership of the Company equity securities if all holders of that class of equity securities receive the same benefit on a pro rata basis.

As discussed further in Subsequent Events (see Note 17), on March 16, 2016, the Company entered into an agreement with RES pursuant to which all 3,000,000 outstanding shares of Series C preferred stock were exchanged for 3,000,000 shares of Series D preferred stock. In lieu of payment of accrued and unpaid dividends in the amount of \$4,947, the Company (a) paid to RES an amount of cash equal to \$1,484, (b) issued to RES 245,156 shares of Series D preferred stock, and (c) issued to RES a promissory note, bearing interest at 6.25% per annum, in the principal amount of \$1,012, which is convertible into Series D preferred stock.

**NOTE 11. NONCONTROLLING INTEREST OF COMMON UNITS IN SLP**

At December 31, 2015 and 2014, 7,659,039 and 97,088 of SLP's common units were outstanding, respectively. These amounts include 2,395,887 and 97,008 common units held by limited partners at December 31, 2015 and 2014, respectively, and 5,263,152 LTIP units outstanding at December 31, 2015 which were not yet earned at that date (see Note 12). The combined redemption value for the common units and LTIP units was \$1,197 and \$25 at December 31, 2015 and 2014, respectively. Common units outstanding increased significantly in 2015 as a result of two events. On March 2, 2015, the Company granted an equity award of 5,263,152 LTIP units to an executive officer representing profit interests in the Company's operating partnership (see Note 12). On October 1 and 2 2015, as partial consideration for the purchase of hotels (see Note 3), 2,298,879 common units in SLP were issued.

Each limited partner of SLP may, subject to certain limitations, require that SLP redeem all or a portion of his or her common units at any time after a specified period following the date the units were acquired, by delivering a redemption notice to SLP. When a limited partner tenders common units for redemption, the Company can, at its sole discretion, choose to purchase the units for either (1) a number of shares of Company common stock at a rate of one share of common stock for each eight common units redeemed or (2) cash in an amount equal to the market value of the number of shares of Company common stock the limited partner would have received if the Company chose to purchase the units for common stock. No common units were redeemed in 2015, 2014, or 2013.

**NOTE 12. STOCK-BASED COMPENSATION**

The Company had a 2006 Stock Plan (the "Plan") which has been approved by the Company's shareholders. The Plan authorizes the grant of stock options, stock appreciation rights, restricted stock, and stock bonuses for up to 62,500 shares of common stock. The 2006 Stock Plan expired effective December 31, 2015.

*Options and Unvested Share Awards*

At December 31, 2015, the Company had a total of 4,583 vested stock options outstanding with a weighted average exercise price of \$7.95 per share and 1,042 unvested stock options outstanding with a weighted average exercise price of \$8.08 per share. The total unrecognized compensation cost related to non-vested stock options at December 31, 2015 was \$1, which is expected to be fully recognized in 2016 when the remaining unvested options fully vest.

As of December 31, 2015, the Company had 1,042 unvested shares of common stock outstanding. The total unrecognized compensation cost related to unvested stock awards at December 31, 2015 was \$4, which is expected to be fully recognized in 2016 when the remaining unvested shares fully vest.

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***Warrants***

On March 2, 2015, the Company granted a warrant to an executive officer of the Company outside of the 2006 Stock Plan as an inducement material to the executive's acceptance of employment. The warrant entitles the executive to purchase a total of 657,894 authorized but previously unissued shares of the Company's common stock with a grant date price at (i) \$1.52 per share (the adjusted closing bid price of the common stock on Nasdaq on March 2, 2015) if at least one-third but not more than one-half of the shares were purchased on or prior to March 17, 2015, and (ii) \$1.92 per share for shares purchased after. The warrant has a three-year term. The executive officer exercised the warrant in part to purchase 227,894 shares on March 11, 2015 at the price of \$1.52 per share. The warrant remains exercisable for 430,000 shares at an exercise price of \$1.92 per share. As of December 31, 2015, the total unrecognized compensation cost related to the warrants was approximately \$214, which is expected to be recognized over the next 26 months.

The Company records compensation expense for warrants based on the estimated fair value of the warrants on the date of grant determined using the Black-Scholes option-pricing model. The Company uses historical data among other factors to estimate expected price volatility, expected warrant life, dividend rate, and expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield in effect at the time of grant for the estimated life of the warrants. The following table summarizes the estimates used in the Black-Scholes option-pricing model related to the warrants granted in 2015:

	<b>\$1.52 Grant March 2, 2015</b>	<b>\$1.92 Grant March 2, 2015</b>
Volatility	53.10 %	78.60 %
Expected forfeitures	0.00 %	0.00 %
Expected term	15 days	3.00 years
Risk free interest rate	0.02 %	1.06 %

***LTIP Awards***

On March 2, 2015, the Company granted an equity award of 5,263,152 LTIP units, representing profit interests in SLP, to an executive officer of the company. The LTIP units are earned in one-third increments upon the Company's common stock achieving price per share milestones of \$3.50, \$4.50, and \$5.50 respectively. Earned LTIP units vest in March 2018, or earlier upon a change in control of the Company, and can be redeemed at the rate of one share of common stock for each eight earned LTIP units for up to 657,894 common shares. As of December 31, 2015, the total unrecognized compensation cost related to the LTIP units was \$370, which is expected to be recognized over the next 26 months.

The Company records compensation expense for the LTIP units based on the estimated fair value of the units on the date of grant determined using the Monte Carlo simulation model. The Company uses historical data among other factors to estimate expected price volatility, expected LTIP life, volume weighted average price, and expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield in effect at the time of grant for the estimated life of the LTIP. The following table summarizes the estimates used in the Monte Carlo option-pricing model related to the LTIP grant in 2015:

	<b>Grant Date March 2, 2015</b>
Volatility	75.5 %
Expected forfeitures	0.00 %
Weighted average price	\$ 1.53
Expected term	3.00 years
Risk free interest rate	1.06 %

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***Investment Committee Share Compensation***

Independent directors serving as members of the Investment Committee of the Board of Directors receive their monthly Investment Committee fees in the form of shares of the Company's common stock issued under the 2006 Stock Plan, priced as the average of the closing price of the stock for the first 20 trading days of the calendar year. The shares issued to the independent directors of the Investment Committee for the years ended December 31, 2015, 2014, and 2013 totaled 21,422, 9,711, and 2,241, respectively.

***Stock-Based Compensation Expense***

The expense recognized in the consolidated financial statements for stock-based compensation related to employees and directors for the years ended December 31, 2015, 2014, and 2013 was \$285, \$34, and \$47, respectively, all of which is included in general & administrative expense.

**NOTE 13. INCOME TAXES**

The Company has recognized no current or deferred income tax expense (benefit) from continuing operations or related to discontinued operations for the years ended December 31, 2015, 2014, and 2013.

Actual income tax expense of the TRS for the years ended December 31, 2015, 2014, and 2013 differs from the "expected" income tax expense (benefit) (computed by applying the appropriate U.S. federal income tax rate of 34% to earnings before income taxes) as a result of the following:

	Year ended December 31,		
	2015	2014	2013
Computed "expected" income tax (benefit)	\$ 684	\$ (118)	\$ (643)
State income taxes, net of Federal income tax (benefit) expense	82	(14)	(76)
(Decrease) increase in valuation allowance	(722)	132	719
Other	(44)	-	-
Total income tax expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014 are as follows:

	As of December 31,	
	2015	2014
<b><u>Deferred tax assets</u></b>		
Expenses accrued for consolidated financial statement purposes, nondeductible for tax return	\$ 113	\$ 189
Net operating losses carried forward for federal income tax purposes	6,902	7,631
Subtotal deferred tax assets	7,015	7,820
Valuation allowance	(6,923)	(7,645)
Total deferred tax assets	<u>92</u>	<u>175</u>
<b><u>Deferred tax liabilities</u></b>		
Tax depreciation in excess of book depreciation	92	175
Total deferred tax liabilities	92	175
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>



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In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company considers projected reversals of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management uses historical experience and short and long-range business forecasts to develop such estimates. Further, we employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. A cumulative loss in recent years is a significant piece of evidence with respect to realizability that outweighs the other evidence, and the TRS incurred net losses in 2014 and 2013 and had taxable income in 2015 primarily due to taxable income generated from property sales during the year. As a result of this analysis, the Company believes that a full valuation allowance against the net deferred tax asset position is necessary at December 31, 2015 and 2014. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred taxes represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

The TRS's net operating loss carryforward at December 31, 2015 as determined for federal income tax purposes was \$18,125. The availability of the loss carryforwards will expire in 2022 through 2035.

As of December 31, 2015, the tax years that remain subject to examination by major tax jurisdictions generally include 2012 through 2015.

**NOTE 14. EARNINGS PER SHARE**

Basic earnings per share ("EPS") is computed by dividing net earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding. Diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of any dilutive potential common shares outstanding during the period. These effects include adjustments to the numerator for any change in fair value attributed to the derivative liabilities (related to the Series C convertible preferred stock and warrants and, in 2014, the convertible loan) during the period the convertible securities are dilutive. The computation of basic and diluted EPS is presented below:

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	Year ended December 31,		
	2015	2014	2013
<b><u>Numerator: Basic (1)</u></b>			
Net earnings (loss) attributable to common shareholders			
Continuing operations - Basic	\$ 5,956	\$ (22,740)	\$ (1,833)
Discontinued operations - Basic	3,537	3,052	(2,867)
Total Basic	<u>\$ 9,493</u>	<u>\$ (19,688)</u>	<u>\$ (4,700)</u>
<b><u>Numerator: Diluted (1)</u></b>			
Net earnings (loss) attributable to common shareholders from continuing operations	\$ 5,956	\$ (22,740)	\$ (1,833)
Unrealized gain on warrant derivative	(4,122)	-	-
Unrealized gain on Series C preferred embedded derivative	(7,533)	-	-
Undeclared dividends on Preferred C	2,074	-	-
Continuing operations – Diluted	(3,625)	(22,740)	(1,833)
Discontinued operations - Diluted	3,537	3,052	(2,867)
Total Diluted	<u>\$ (88)</u>	<u>\$ (19,688)</u>	<u>\$ (4,700)</u>
<b><u>Denominator</u></b>			
Weighted average number of common shares - Basic	4,885,625	3,897,092	2,889,823
Unvested stock	4,025	-	-
Series C convertible stock	18,750,000	-	-
Warrants - Employees	691	-	-
Warrants - RES	(399,778)	-	-
Weighted average number of common shares - Diluted	<u>23,240,563</u>	<u>3,897,092</u>	<u>2,889,823</u>
<b><u>EPS</u></b>			
Continuing operations - Basic	\$ 1.22	\$ (5.84)	\$ (0.64)
Discontinued operations - Basic	0.72	0.79	(0.99)
Total - Basic EPS	<u>\$ 1.94</u>	<u>\$ (5.05)</u>	<u>\$ (1.63)</u>
Continuing operations - Diluted	\$ (0.15)	\$ (5.84)	\$ (0.64)
Discontinued operations - Diluted	0.15	0.79	(0.99)
Total - Diluted EPS	<u>\$ -</u>	<u>\$ (5.05)</u>	<u>\$ (1.63)</u>

(1) The loss (earnings) attributable to noncontrolling interest is allocated between continuing and discontinued operations for the purpose of the EPS calculation.

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Potentially dilutive common shares, if any, have been excluded from the denominator if they are antidilutive to net earnings (loss) attributable to common shareholders. The weighted average number of common shares in 2015 and 2014 is significantly higher than the weighted average number of common shares in 2013 due to the issuance of common stock from the rights offering during the last month of the second quarter of 2014 (see Note 8).

The following table summarizes the weighted average number of potentially dilutive securities that have been excluded from the denominator for the purpose of computing diluted EPS:

	Year ended December 31,		
	2015	2014	2013
Outstanding stock options	5,625	8,750	20,063
Unvested stock awards outstanding	-	1,541	2,257
Warrants - RES	-	3,750,000	3,750,000
Warrants - Employees	359,121	-	-
Series C preferred stock	-	18,750,000	3,750,000
LTIP common units (1)	549,747	-	-
Convertible debt	-	551,370	-
SLP common units (1)	84,556	12,126	12,126
Total potentially dilutive securities excluded from the denominator	<u>999,049</u>	<u>23,073,787</u>	<u>7,534,446</u>

(1) LTIP and common units of SLP have been omitted from the denominator for the purpose of computing diluted EPS since the effect of including these amounts in the numerator and denominator would have no impact on calculated EPS

**NOTE 15. COMMITMENTS AND CONTINGENCIES**

***Management Agreements***

Our TRS engages eligible independent contractors as property managers for each of our hotels in accordance with the requirements for qualification as a REIT. The hotel management agreements provide that the management companies have control of all operational aspects of the hotels, including employee-related matters. The management companies must generally maintain each hotel under their management in good repair and condition and perform routine maintenance, repairs, and minor alterations. Additionally, the management companies must operate the hotels in accordance with the national franchise agreements that cover the hotels, which includes, as applicable, using franchisor sales and reservation systems as well as abiding by franchisors' marketing standards. The management agreements generally require the TRS to fund debt service, working capital needs, and capital expenditures and to reimburse the management companies for all operating costs and expenses incurred in the operation of the hotels. The TRS also is responsible for obtaining and maintaining certain insurance policies with respect to the hotels.

Each of the management companies employed by the TRS at December 31, 2015 receives a base monthly management fee of 3.0% to 3.5% of gross hotel revenue plus incentive fees capped at 1.5% to 2.0% of gross hotel revenue, earned when actual hotel results exceed either budgeted results or specific return metrics. During the second quarter of 2015, the Company negotiated new agreements with our existing management companies. Prior to the renegotiation, management fees were calculated as 3.5% of gross hotel revenue plus 2.5% of hotel operating income controlled by the management companies, with no incentive fees available. For the years ended December 31, 2015, 2014, and 2013, base management fees incurred totaled \$2,466, \$3,101, and \$3,361, respectively, of which \$2,298, \$2,463, and \$2,286, respectively, was included in continuing operations as hotel and property operations expense. For the year ended December 31, 2015, incentive management fees, included in continuing operations in their entirety, totaled \$158.

The management agreements generally have initial terms of one to three years and renew for additional terms of one year unless either party to the agreement gives the other party written notice of termination at least 90 days before

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the end of a term. The Company may terminate a management agreement, subject to cure rights, if certain performance metrics tied to both individual hotel and total managed portfolio performance are not met. The Company may also terminate a management agreement with respect to a hotel at any time without reason upon payment of a termination fee equal to 50% of the management fee paid with respect to the hotel during the prior 12 months. The management agreements terminate with respect to a hotel upon sale of the hotel, subject to certain notice requirements.

***Franchise Agreements***

As of December 31, 2015, 39 of our properties operate under franchise licenses from national hotel companies. Under our franchise agreements, we are required to pay franchise fees generally between 3.3% and 5.5% of room revenue, plus additional fees for marketing, central reservation systems, and other franchisor programs and services that amount to between 2.5% and 6.0% of room revenue. The franchise agreements typically have 10 to 25 year terms although certain agreements may be terminated by either party on certain anniversary dates specified in the agreements. Further, each agreement provides for early termination fees in the event the agreement is terminated before the stated term. Franchise fee expense totaled \$3,883, \$4,691, and \$4,927, for the years ended December 31, 2015, 2014, and 2013, respectively, of which \$3,853, \$4,051, and \$3,759, respectively, was included in continuing operations as hotel and property operations expense. The initial fees incurred to enter into the franchise agreements are capitalized and amortized over the life of the franchise agreements.

***Leases***

The Company assumed land lease agreements at the time of purchase related to three hotels owned at December 31, 2015. One lease requires monthly payments of the greater of \$2 or 5% of room revenue and is associated with a property held for sale at December 31, 2015. The second lease requires annual payments of \$34, with approximately \$3 increases every five years throughout 12 optional renewal periods. The third lease requires annual lease payments of \$13 and is associated with a property held for sale at December 31, 2015. Land lease expense totaled approximately \$105, \$102, and \$192 for the years ended December 31, 2015, 2014 and 2013, respectively, of which \$89, \$86, and \$84, respectively, is included in continuing operations as hotel and property operations expense.

The Company entered into office lease agreements in May of 2010 and December of 2011. The two office leases mature in 2016 with the option to renew an additional five years. Office lease expense totaled \$163, \$162, and \$162 in the years ended December 31, 2015, 2014, and 2013, respectively, and is included in general and administrative expense.

As of December 31, 2015, the future minimum lease payments applicable to non-cancellable operating leases, excluding leases associated with properties held for sale at December 31, 2015, are as follows:

		<b>Lease rents</b>
2016	\$	191
2017		37
2018		39
2019		40
2020		40
	\$	347

As of December 31, 2015, the Company had agreements with a restaurant and a cell tower operator for leased space at our hotel locations. The restaurant lease has a maturity date of 2019 and has minimum non-cancellable rent of \$12 annually. The cell tower lease has a maturity date of 2020 and is related to a property that is held for sale at December 31, 2015. Lease income totaled \$198, \$309, and \$327 for the years ended December 31, 2015, 2014, and

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2013, respectively, of which \$177, \$292, and \$265, respectively, was included in continuing operations in room rentals and other hotel services revenue.

***Obligation to RES***

The Company has an obligation to RES to use \$25 million of the proceeds from its capital infusion in 2012 to pursue hotel acquisitions (see Note 10). There are no contractual restrictions or penalties related to the use of these funds for purposes other than acquisitions, but the Company is obligated to replace these funds promptly as it has the ability to do so. Following the completion of the three hotel acquisitions in 2015, the Company believes it has satisfied all but \$1.6 million of this obligation.

***Benefit Plans***

The Company has a qualified contributory retirement plan under Section 401(k) of the Code (the “401(k) Plan”) which covers all employees who meet certain eligibility requirements. Voluntary contributions may be made to the 401(k) Plan by employees. The 401(k) Plan is a Safe Harbor Plan and requires a mandatory employer contribution. The employer contribution expense for the years ended December 31, 2015, 2014, and 2013 was \$66, \$59, and \$62, respectively, and is included in general and administrative expenses.

***Litigation***

Various claims and legal proceedings arise in the ordinary course of business and may be pending against the Company and its properties. We are not currently involved in any material litigation, nor, to our knowledge, is any material litigation threatened against us. The Company has insurance to cover potential material losses and we believe it is not reasonably possible that such matters will have a material impact on our financial condition or results of operations.

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**NOTE 16. QUARTERLY OPERATING RESULTS (UNAUDITED)**

	Quarter ended (unaudited)				
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	Total 2015
<b>Revenue</b>	\$ 12,346	\$ 16,364	\$ 15,556	\$ 13,075	\$ 57,341
Operating expenses	12,853	13,958	13,681	13,517	54,009
<b>Operating income (loss)</b>	(507)	2,406	1,875	(442)	3,332
Net gain (loss) on dispositions of assets	13	(135)	2,928	1,996	4,802
Unrealized derivative gain (loss)	4,823	(4,710)	7,895	3,570	11,578
Other income (expense)	95	31	(4)	(8)	114
Interest expense	(1,527)	(1,490)	(1,118)	(1,310)	(5,445)
Loss on debt extinguishment	(7)	-	(104)	(102)	(213)
Impairment recovery (loss)	(777)	(3,053)	313	(311)	(3,828)
Earnings (loss) from continuing operations before income taxes	2,113	(6,951)	11,785	3,393	10,340
Income tax expense	-	-	-	-	-
Earnings (loss) from continuing operations	2,113	(6,951)	11,785	3,393	10,340
Gain from discontinued operations, net of tax	1,337	1,052	169	1,424	3,982
<b>Net earnings (loss)</b>	3,450	(5,899)	11,954	4,817	14,322
(Earnings) loss attributable to noncontrolling interest	(281)	284	(724)	(476)	(1,197)
<b>Earnings (loss) attributable to controlling interests</b>	3,169	(5,615)	11,230	4,341	13,125
Preferred stock dividends declared and undeclared	(891)	(902)	(914)	(925)	(3,632)
<b>Net earnings (loss) attributable to common shareholders</b>	<u>\$ 2,278</u>	<u>\$ (6,517)</u>	<u>\$ 10,316</u>	<u>\$ 3,416</u>	<u>\$ 9,493</u>
<b>Basic Earnings Per Share (1)</b>					
Basic EPS from continuing operations	\$ 0.23	\$ (1.52)	\$ 2.06	\$ 0.44	\$ 1.22
Basic EPS from discontinued operations	0.25	0.20	0.03	0.25	0.72
Total EPS Basic	<u>\$ 0.48</u>	<u>\$ (1.32)</u>	<u>\$ 2.09</u>	<u>\$ 0.69</u>	<u>\$ 1.94</u>
<b>Diluted Earnings Per Share (1)</b>					
Diluted EPS from continuing operations	\$ (0.14)	\$ (1.52)	\$ 0.12	\$ (0.04)	\$ (0.15)
Diluted EPS from discontinued operations	0.05	0.20	0.01	0.05	0.15
Total EPS Diluted	<u>\$ (0.09)</u>	<u>\$ (1.32)</u>	<u>\$ 0.13</u>	<u>\$ 0.01</u>	<u>\$ 0.00</u>

(1) Quarterly and total annual EPS are based on the weighted average number of shares outstanding during each quarter and the annual period. Due to rounding and differences in earnings and losses between the quarterly and annual periods, the sum of the quarterly EPS amounts may not equal the reported amounts for the year

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	Quarters ended (unaudited)				Total 2014
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	
<b>Revenue</b>	\$ 11,291	\$ 16,059	\$ 16,902	\$ 13,157	\$ 57,409
Operating expenses	12,480	13,808	14,556	13,117	53,961
<b>Operating income (loss)</b>	<b>(1,189)</b>	<b>2,251</b>	<b>2,346</b>	<b>40</b>	<b>3,448</b>
Net gain (loss) on dispositions of assets	(25)	(1)	63	(36)	1
Unrealized derivative gain (loss)	2,115	(11,718)	(4,615)	(212)	(14,430)
Other income (expense)	31	94	(12)	3	116
Interest expense	(1,729)	(1,819)	(1,774)	(1,697)	(7,019)
Loss on debt extinguishment	(9)	(94)	(37)	(18)	(158)
Impairment recovery (loss)	119	-	-	(1,388)	(1,269)
Earnings (loss) from continuing operations before income taxes	(687)	(11,287)	(4,029)	(3,308)	(19,311)
Income tax expense	-	-	-	-	-
Earnings (loss) from continuing operations	(687)	(11,287)	(4,029)	(3,308)	(19,311)
Gain from discontinued operations, net of tax	182	829	1,628	413	3,052
<b>Net earnings (loss)</b>	<b>(505)</b>	<b>(10,458)</b>	<b>(2,401)</b>	<b>(2,895)</b>	<b>(16,259)</b>
(Earnings) loss attributable to noncontrolling interest	1	15	3	4	23
<b>Earnings (loss) attributable to controlling interests</b>	<b>(504)</b>	<b>(10,443)</b>	<b>(2,398)</b>	<b>(2,891)</b>	<b>(16,236)</b>
Preferred stock dividends declared and undeclared	(847)	(858)	(868)	(879)	(3,452)
<b>Net earnings (loss) attributable to common shareholders</b>	<b>\$ (1,351)</b>	<b>\$ (11,301)</b>	<b>\$ (3,266)</b>	<b>\$ (3,770)</b>	<b>\$ (19,688)</b>
<b>Basic and Diluted Earnings Per Share (1)</b>					
EPS from continuing operations	\$ (0.53)	\$ (3.69)	\$ (1.04)	\$ (0.89)	\$ (5.84)
EPS from discontinued operations	\$ 0.06	\$ 0.25	\$ 0.35	\$ 0.09	\$ 0.79
Total EPS basic and diluted	<b>\$ (0.47)</b>	<b>\$ (3.44)</b>	<b>\$ (0.69)</b>	<b>\$ (0.80)</b>	<b>\$ (5.05)</b>

(1) Quarterly and total annual EPS are based on the weighted average number of shares outstanding during each quarter and the annual period. Due to rounding and differences in earnings and losses between the quarterly and annual periods, the sum of the quarterly EPS amounts may not equal the reported amounts for the year

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**NOTE 17. SUBSEQUENT EVENTS**

***Subsequent Property Activity***

Subsequent to December 31, 2015, the Company has sold three hotel properties. After repayment of the associated loans, proceeds from these sales will be used to fund future acquisitions and for general corporate purposes. The sold properties and the related gross proceeds are as follows:

- 61-room Super 8 in Kirksville, Missouri on January 4, 2016 for \$1,525.
- 133-room Super 8 in Lincoln, Nebraska on January 7, 2016 for \$2,800.
- 170-room Savannah Suites in Greenville, South Carolina on January 8, 2016 for \$2,700.

Subsequent to December 31, 2015, one additional hotel property met the criteria to be considered held for sale. Investment in hotel property, net of \$619 and debt of \$1,582 related to this property remain classified in the December 31, 2015 balance sheet as held for use.

***Subsequent Equity Transactions***

On March 16, 2016, as discussed in the Company's Current Report on Form 8-K dated the same, the Company entered into a series of agreements providing for:

- the issuance and sale of Condor's Series D Cumulative Convertible Preferred Stock ("Series D preferred stock") under a private transaction to SREP III Flight-Investco, L.P. ("SREP"), an affiliate of StepStone Group LP;
- the exchange of all of Condor's outstanding Series C preferred stock for Series D preferred stock; and
- the cash redemption of all of Condor's outstanding Series A preferred stock and Series B preferred stock.

On March 16, 2016, the Company and SREP entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") pursuant to which Condor issued and sold 3,000,000 shares of Series D preferred stock to SREP on the same date for an aggregate purchase price of \$30,000. The Stock Purchase Agreement required that \$20,147 of the purchase price be deposited into an escrow account for purposes of effecting the redemption of the Series A and Series B preferred stock and that the remaining amount of the purchase price be delivered to Condor.

Simultaneously, the Company entered into an Agreement (the "Exchange Agreement") with RES pursuant to which all 3,000,000 outstanding shares of Series C preferred stock were exchanged for 3,000,000 shares of Series D preferred stock. Under the Exchange Agreement, in lieu of payment of accrued and unpaid dividends in the amount of \$4,947 on the Series C preferred stock, Condor (a) paid to RES an amount of cash equal to \$1,484, (b) issued to RES 245,156 shares of Series D preferred stock (such that RES, IRSA and their affiliates do not beneficially own in excess of 49% of the voting stock of Condor) and (c) issued to RES a promissory note, bearing interest at 6.25% per annum, in the principal amount of \$1,012 and convertible into a number of shares of Series D preferred stock that would have otherwise been issued on account of the remaining accrued and unpaid dividends but for the foregoing 49% limitation (the "Note"). If Series D preferred stock is outstanding, RES at its option may at any time elect to convert the Note, in whole or part, by notice delivered to the Company, into a number of shares of Series D preferred stock, determined by dividing the principal amount of the Note to be converted by \$10.00. Any time the Series D preferred stock is required by its terms to be converted into common stock of the Company, the Note will be automatically converted into the number of shares of common stock that RES would have received had RES converted this Note into Series D preferred stock immediately prior to the conversion of the Series D preferred stock. Any such conversion shall be reduced such that RES, together with its affiliates, does not beneficially own more than 49% of the voting stock of the Company and shall reduce the principal amount of the Note proportionally.



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The Series D preferred stockholders will rank senior to the Company's common stock and any other preferred stock issuances and receives preferential cumulative cash dividends at a rate of 6.25% per annum of the \$10.00 face value per share. Dividends on the Series D preferred stock accrue whether or not the Company has earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared and whether or not such dividends are prohibited by agreement. Whenever the dividends on the Series D preferred stock are in arrears for four consecutive quarters, then upon notice by holders in the aggregate not less than 40% of the outstanding Series D preferred stock, the Company will (a) take all appropriate action reasonably within its means to maximize the assets legally available for paying such dividends and to monetize such assets (for example, but without limiting the generality of the foregoing, by selling or liquidating all of some of the Company's assets or by selling the Company as a going concern), (b) pay out of all such assets legally available (including any proceeds from any sale or liquidation of such assets) the maximum possible amount of such unpaid dividends, and (c) thereafter, at any time and from time to time when additional assets of the Company (including any proceeds from any sale or liquidation of such assets) become legally available to pay such unpaid dividends, pay such remaining unpaid dividends until all dividends accumulated on the Series D preferred stock have been fully paid.

The Series D preferred stock is convertible, at the option of the holder, at any time into common stock at a rate of \$1.60 per share of common stock, which is equal to a rate of 6.25 shares of common stock for each share of Series D preferred stock. The conversion price is subject to anti-dilution adjustments upon the occurrence of stock splits and stock dividends. All outstanding shares of Series D preferred stock will be converted into this number of shares of common stock automatically upon closing of a Qualified Offering (defined as a single offering of common stock of at least \$50,000 or up to three offerings in the aggregate of at least \$75,000 with certain minimum prices per share) without any further action by the holders of such shares or the Company.

The Series D preferred stock is redeemable by the Company at any time subject to certain restrictions, in whole or in a partial redemption of up to \$30,000, at \$12.00 per share on or before March 16, 2019, \$13.00 per share from March 16, 2019 to March 16, 2020, and \$14.00 per share on or after March 16, 2020, plus all accrued and unpaid dividends. If a Qualified Offering has not occurred on or before March 31, 2021, holders that hold in the aggregate not less than 40% of the outstanding shares of the Series D preferred stock have the right to elect to have the Company fully liquidate in a commercially reasonable manner as determined by the Board of Directors of the Company to provide for liquidation distributions to the holders of the Series D preferred stock in an amount per share of Series D preferred stock equal to \$14.00 in cash plus accrued and unpaid dividends. Once this right has been exercised and the Company has been notified, the dividend rate on the Series D preferred stock after March 31, 2021 will increase from 6.25% per annum to 12.5% per annum. The holders of Series D preferred stock vote their Series D preferred stock as a single class with the holders of the common stock on all matters submitted to such holders for vote or consent. For each such vote or consent, each share of Series D preferred stock entitles the holder to cast one vote for each whole vote (rounded to the nearest whole number) that such holder would be entitled to cast had such holder converted its Series D preferred stock into shares of common stock as of the date immediately prior to the record date for determining the shareholders of the Company eligible to vote on any such matter.

Pursuant to the Stock Purchase Agreement, on March 16, 2016, Condor issued notices to redeem all of the outstanding Series A and Series B preferred stock on April 15, 2016 as follows:

- all 803,270 outstanding shares of the Series A preferred stock will be redeemed at the redemption price of \$10.00 per share plus \$2.084940 per share in accrued and unpaid dividends (plus compounded interest) through the redemption date; and
- all 332,500 outstanding shares of the Series B preferred stock will be redeemed at the redemption price of \$25.00 per share plus \$6.354167 per share in accrued and unpaid dividends through the redemption date.

With notice given, and the redemption funds deposited in escrow, all rights of the holders of the Series A and Series B preferred stock terminated, except the right to receive the redemption price.

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**As of December 31, 2015**  
**(In thousands)**

Additions, (Dispositions),  
(Impairments)

Hotel and Location	Encumbrance	Initial Cost		Subsequent to Acquisition		Gross Amount at December 31, 2015				Net Book Value
		Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Improvements	Accumulated Depreciation	Net	
<b>Comfort Inn</b>										
Chambersburg, Pennsylvania	MS	\$ 89	\$ 2,346	\$ -	\$ 492	\$ 89	\$ 2,838	\$ (1,506)	\$ 1,421	
Farmville, Virginia	MS	254	2,162	-	645	254	2,807	(1,682)	1,379	
Harlan, Kentucky	GE	-	2,949	-	844	-	3,793	(1,899)	1,894	
New Castle, Pennsylvania	MS	57	4,101	-	805	57	4,906	(2,555)	2,408	
Rocky Mount, Virginia	MS	194	2,162	-	688	194	2,850	(1,328)	1,716	
Shelby, North Carolina	MS	254	2,782	-	1,722	254	4,504	(2,521)	2,237	
Alexandria, Virginia	SOLD	2,500	9,373	(2,500)	(9,373)	-	-	-	-	
Glasgow, Kentucky	GE	500	2,456	(20)	544	480	3,000	(968)	2,512	
<b>Super 8</b>										
Creston, Iowa	MS	56	841	90	2,438	146	3,279	(2,112)	1,313	
O'Neill, Nebraska	MS	75	667	46	1,184	121	1,851	(1,196)	776	
Lincoln, Nebraska (Cornhusker)	GWB	226	1,069	272	1,853	498	2,922	(1,990)	1,430	
Keokuk, Iowa	MS	55	643	71	609	126	1,252	(977)	401	
Iowa City, Iowa	MS	227	1,280	-	589	227	1,869	(1,478)	618	
Kirksville, Missouri	GWB	151	830	-	403	151	1,233	(935)	449	
Burlington, Iowa	MS	145	867	-	389	145	1,256	(897)	504	
Hays, Kansas	SOLD	318	1,134	(318)	(1,133)	-	-	-	-	
Pittsburg, Kansas	MS	130	852	-	523	130	1,375	(806)	699	
Manhattan, Kansas	SOLD	262	1,254	(262)	(1,254)	-	-	-	-	
Mt. Pleasant, Iowa	MS	86	536	22	544	108	1,080	(784)	404	
Storm Lake, Iowa	MS	90	819	41	623	131	1,442	(950)	623	
West Plains, Missouri	SOLD	112	861	(112)	(861)	-	-	-	-	

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**(In thousands)**

Hotel and Location	Encumbrance	Initial Cost		Additions, (Dispositions), (Impairments)			Gross Amount at December 31, 2015			Net Book Value
		Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Accumulated Depreciation	Net Book Value	
<b>Super 8 (continued)</b>										
Batesville, Arkansas	SOLD	81	811	(81)	(811)	-	-	-	-	-
Portage, Wisconsin	MS	203	1,839	-	392	203	2,231	(1,289)	1,145	1,145
Tomah, Wisconsin	SOLD	212	2,080	(212)	(2,080)	-	-	-	-	-
Menomonie, Wisconsin	MS	452	2,398	-	483	452	2,881	(1,544)	1,789	1,789
Billings, Montana	GE	518	4,807	-	329	518	5,137	(1,372)	4,283	4,283
Columbus, Georgia	SOLD	441	4,173	(441)	(4,173)	-	-	-	-	-
Green Bay, Wisconsin	SOLD	570	2,784	(570)	(2,784)	-	-	-	-	-
<b>Supertel Inn</b>										
Creston, Iowa	GWB	235	2,708	-	45	235	2,753	(945)	2,043	2,043
<b>Quality Inn</b>										
Danville, Kentucky	MS	156	2,971	-	786	156	3,757	(2,152)	1,761	1,761
Sheboygan, Wisconsin	SOLD	287	1,717	(287)	(1,717)	-	-	-	-	-
Culpeper, Virginia	MS	182	2,143	-	680	182	2,823	(1,432)	1,573	1,573
Morgantown, West Virginia	MS	398	3,854	-	1,204	398	5,058	(2,515)	2,941	2,941
Princeton, West Virginia	MS	388	1,775	-	870	388	2,645	(1,396)	1,637	1,637
Solomons, Maryland	GE	2,304	2,988	-	2,201	2,304	5,189	(3,524)	3,969	3,969
<b>Clarion</b>										
Cleveland, Tennessee	MS	213	2,370	-	1,119	213	3,489	(2,078)	1,624	1,624
<b>Sleep Inn</b>										
Omaha, Nebraska	SOLD	400	3,276	(400)	(3,276)	-	-	-	-	-

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**(In thousands)**

Hotel and Location	Encumbrance	Initial Cost		Additions, (Dispositions), (Impairments)		Subsequent to Acquisition		Gross Amount at December 31, 2015		Net Book Value	
		Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements		Accumulated Depreciation
<b>Rodeway Inn</b>											
Fayetteville, North Carolina	SOLD	725	3,911	(725)	(3,911)	-	-	-	-	-	
Fayetteville Car Wash, North Carolina	SOLD	-	164	-	(164)	-	-	-	-	-	
<b>Comfort Suites</b>											
Ft. Wayne, Indiana	HUNT	1,200	4,804	-	1,405	1,200	6,209	(2,326)	5,083		
Lafayette, Indiana	HUNT	850	3,474	-	601	850	4,075	(1,458)	3,467		
Marion, Indiana	HUNT	430	1,945	-	887	430	2,832	(1,106)	2,156		
South Bend, Indiana	GE	500	11,512	(250)	(2,989)	250	8,523	(1,345)	7,428		
Warsaw, Indiana	HUNT	650	2,501	-	637	650	3,138	(1,152)	2,636		
<b>Days Inn</b>											
Farmville, Virginia	MS	385	1,968	-	451	385	2,419	(1,393)	1,411		
Alexandria, Virginia	SOLD	2,500	6,544	(2,500)	(6,544)	-	-	-	-		
Bossier City, Louisiana	GWB	1,025	5,118	(614)	(2,399)	411	2,719	(827)	2,303		
Ashland, Kentucky	SOLD	320	1,303	(320)	(1,303)	-	-	-	-		
Glasgow, Kentucky	SOLD	425	2,207	(425)	(2,207)	-	-	-	-		
Stouxs Falls, Airport	GE	-	2,398	-	(157)	-	2,241	(399)	1,842		
<b>Hotel Indigo</b>											
Atlanta, Georgia	GE	800	10,239	-	9	800	10,248	(142)	10,906		
<b>Courtyard by Marriott</b>											
Jacksonville, Florida	GE	2,100	12,008	-	37	2,100	12,045	(141)	14,004		
<b>SpringHill Suites</b>											
San Antonio, Texas	LAT	1,597	16,003	-	1	1,597	16,004	(157)	17,444		

**Condor Hospitality Trust, Inc. and Subsidiaries**  
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**(In thousands)**

Hotel and Location	Encumbrance	Initial Cost		Additions, (Dispositions), (Impairments) Subsequent to Acquisition		Gross Amount at December 31, 2015		Net Book Value	
		Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements		
<b>Extended Stay-Savannah Suites</b>									
Atlanta, Georgia	GE	1,865	3,998	(982)	(1,820)	883	2,178	(472)	\$ 2,589
Augusta, Georgia	SOLD	750	3,816	(750)	(3,816)	-	-	-	-
Chamblee, Georgia	SOLD	1,650	3,564	(1,650)	(3,564)	-	-	-	-
Greenville, South Carolina	GE	550	3,408	(255)	(1,405)	295	2,003	(381)	1,917
Savannah, Georgia	SOLD	1,250	4,053	(1,250)	(4,053)	-	-	-	-
<b>Key West Inns</b>									
Key Largo, Florida	MS	339	3,239	-	1,396	339	4,635	(2,405)	2,569
<b>Hilton Garden Inn</b>									
Dowell, Maryland	CAN	1,400	9,815	-	910	1,400	10,725	(1,262)	10,863
Subtotal Hotel Properties		34,132	200,670	(14,382)	(32,456)	19,750	168,214	(57,797)	130,167
Construction in progress		-	-	-	455	-	455	-	455
Office building		69	1,517	(69)	(1,037)	-	480	(403)	77
<b>Total</b>		\$ 34,201	\$ 202,187	\$ (14,451)	\$ (33,038)	\$ 19,750	\$ 169,149	\$ (58,200)	\$ 130,699

Encumbrance codes refer to the following lenders:

MS	Morgan Stanley	GE	GE Franchise Finance
GWB	Great Western Bank	HUNT	Huntington
LAT	Latitude	CAN	Cantor

See Accompanying Report of Independent Registered Public Accounting Firm

**Condor Hospitality Trust, Inc. and Subsidiaries**  
**Notes to Schedule III Real Estate and Accumulated Depreciation**  
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**(In thousands)**

<b>ASSET BASIS</b>		<b>Total</b>
(a)	<b>Balance at January 1, 2013</b>	\$ 279,490
	Additions to buildings and improvements	6,585
	Disposition of buildings and improvements	(29,463)
	Impairment loss	(8,144)
	<b>Balance at December 31, 2013</b>	248,468
	Additions to buildings and improvements	3,058
	Disposition of buildings and improvements	(32,646)
	Impairment loss	(4,295)
	<b>Balance at December 31, 2014</b>	214,585
	Additions to buildings and improvements	46,489
	Disposition of buildings and improvements	(65,802)
	Impairment loss	(6,373)
	<b>Balance at December 31, 2015</b>	\$ 188,899
<b>ACCUMULATED DEPRECIATION</b>		<b>Total</b>
(b)	<b>Balance at January 1, 2013</b>	\$ 88,399
	Depreciation for the period ended December 31, 2013	7,294
	Depreciation on assets sold or disposed	(10,523)
	Impairment loss	(1,058)
	<b>Balance at December 31, 2013</b>	84,112
	Depreciation for the period ended December 31, 2014	6,549
	Depreciation on assets sold or disposed	(13,884)
	Impairment loss	(1,374)
	<b>Balance at December 31, 2014</b>	75,403
	Depreciation for the period ended December 31, 2015	5,400
	Depreciation on assets sold or disposed	(19,938)
	Impairment loss	(2,665)
	<b>Balance at December 31, 2015</b>	\$ 58,200

- (c) The aggregate cost of land, buildings, furniture and equipment for Federal income tax purposes is approximately \$198 million (unaudited).
- (d) Depreciation is computed based upon the following useful lives:  
Buildings and improvements 15 - 40 years  
Furniture and equipment 3 - 12 years
- (e) The Company has mortgages payable on the properties as noted. Additional mortgage information can be found in Note 5 to the consolidated financial statements.

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

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### ***Disclosure Controls and Procedures***

An evaluation was performed under the supervision of management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15 of the rules promulgated under the Securities and Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934 was (a) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (b) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Other than as discussed below, no changes in the Company's internal controls over financial reporting occurred during the last fiscal quarter covered by this report that have materially effected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

#### ***Management's Annual Report On Internal Control Over Financial Reporting***

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Securities Exchange Act Rule 13a-15(f). The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. The Company's management used the framework in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations (COSO) to perform this evaluation. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Internal control over financial reporting was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

#### ***Changes in Internal Control Over Financial Reporting***

We have implemented significant changes to our internal control over financial reporting throughout the course of the year ended December 31, 2015 to strengthen and improve our overall internal control structure. The changes to our internal control over financial reporting include the following:

- Designing and implementing a process to adequately review the valuation report received from a third party valuation firm engaged by us to assist us in valuing our derivative instruments.

- Hiring and developing additional accounting personnel with the requisite experience and skills to maintain and improve our processes, procedures, and internal control environment, including ensuring that a secondary review is done for all analysis performed.

We believe we have designed and implemented internal controls to remedy the material weaknesses identified in our Annual Report on Form 10-K filed for the year ended December 31, 2014. We continue to work diligently to design and implement procedures and controls that we believe will further strengthen and improve our internal control structure and environment.

## **ITEM 9B. OTHER INFORMATION**

On November 9, 2015, the Company received notification from the Nasdaq Listings Qualification Department of the Nasdaq that for the previous 30 consecutive business days, the market value of publicly held shares (“MVPHS”) of the Company’s common stock had closed below the minimum \$5.0 million requirement for continued inclusion on the Nasdaq Global Market pursuant to Nasdaq Listing Rule 5450(b)(1)(C). The Company was provided 180 calendar days, or until May 9, 2016, to regain compliance with the minimum MVPHS requirement. In accordance with Nasdaq Listing Rule 5810(c)(3)(D), the Company can regain compliance if at any time during the 180-day period the closing MVPHS is at least \$5 million for a minimum of 10 consecutive business days. In the event the Company does not regain compliance with the MVPHS requirement prior to May 9, 2016, the common stock will be subject to delisting.

As of March 18, 2016, the Company has 4,941,878 shares of common stock outstanding. Under the Nasdaq listing rules, 1,529,721 shares of the Company’s common stock (31% of the outstanding common stock) that are held directly or indirectly by officers, directors, or 10% beneficial owners of the total shares outstanding are not considered publicly held shares for purposes of calculating MVPHS. Based on a March 18, 2016 closing common stock price of \$1.49, the Company’s MVPHS is \$5.08 million, in excess of the Nasdaq required value of \$5.0 million. However, this value has not currently been maintained for the required minimum 10 consecutive business days.

A delisting of our common stock from the Nasdaq Global Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.



**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Certain of the information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.

**Equity Compensation Plan Information**

The following table provides information about the Company’s common stock that may be issued upon exercise of options, warrants, and rights under existing equity compensation plans as of December 31, 2015:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (including securities plans reflected in column(a)) (c)
Equity compensation plans approved by security holders	2,500	\$ 7.84	- (1)
Equity compensation plans not approved by security holders	433,125	1.96	-
<b>Total</b>	<b>435,625</b>	<b>\$ 2.00</b>	<b>-</b>

(1) Represents shares issuable under the Company’s 2006 Stock Plan. On December 31, 2015, the 2006 Stock Plan expired. Expiration of the 2006 Stock Plan does not impact awards issued under the plan prior to its expiration.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference to the Company’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**Financial Statements and Financial Statement Schedules**

The following financial statements and financial statement schedule are included in this report on the pages listed below:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	46
<u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>	47
<u>Consolidated Statements of Operations for the Years Ended December 31, 2015, 2014, and 2013</u>	48
<u>Consolidated Statements of Equity for the Years Ended December 31, 2015, 2014, and 2013</u>	49
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014, and 2013</u>	50
<u>Notes to Consolidated Financial Statements</u>	51
<u>Schedule III – Real Estate and Accumulated Depreciation</u>	81
<u>Notes to Schedule III – Real Estate and Accumulated Depreciation</u>	85

All other schedules for which provision is made in Regulation S-X are either not required to be included herein pursuant to the related instructions are inapplicable, or the related information is included in the footnotes to the applicable financial statement, and, therefore, have been omitted from this Item 15.

### **Exhibits**

3.1 Amended and Restated Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K (Commission file number 001-34087) dated March 16, 2016).

3.2 Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K (Commission file number 001-34087) dated November 19, 2014).

10.1 Third Amended and Restated Agreement of Limited Partnership of Supertel Limited Partnership, as amended (incorporated herein by reference to Exhibit 10.1 to the Company’s Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2010).

10.2 Second Amendment to Third Amended and Restated Agreement of Limited Partnership of Supertel Limited Partnership dated March 2, 2015 (incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K (Commission file number 001-34087) dated March 2, 2015).

10.3 First Amended and Restated Master Lease Agreement dated as of November 26, 2002 between Supertel Limited Partnership, E&P Financing Limited Partnership, TRS Leasing, Inc. and Solomons Beacon Inn Limited Partnership (incorporated herein by reference to Exhibit 10.2 to the Company’s Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.4 Hotel Management Agreement dated June 19, 2015 by and between TRS Leasing, Inc., TRS Subsidiary, LLC and Kineth Hotel Corporation (incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K (Commission file number 001-34087) dated June 19, 2015).

10.5 Hotel Management Agreement dated June 19, 2015 by and between TRS Leasing, Inc., TRS Subsidiary, LLC and Strand Development Company, LLC (incorporated herein by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K (Commission file number 001-34087) dated June 19, 2015).

10.6 Hotel Management Agreement dated June 19, 2015 by and between TRS Leasing, Inc., TRS Subsidiary, LLC, SPPR TRS Subsidiary, LLC, BMI Alexandria TRS Subsidiary, LLC and Hospitality Management Advisors, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K (Commission file number 001-34087) dated June 19, 2015).

10.7 Hotel Management Agreement dated June 19, 2015 by and between SPPR-Dowell TRS Subsidiary, LLC and Cherry Cove Hospitality Management, LLC (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 19, 2015).

10.8 Hotel Management Agreement dated October 1, 2015 between TRS San Spring, LLC and Peachtree Hospitality Management, LLC (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated October 1, 2015).

10.9 Hotel Management Agreement dated October 1, 2015 between TRS Atl Indy, LLC and Peachtree Hospitality Management, LLC (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated October 1, 2015).

10.10 Hotel Management Agreement dated October 1, 2015 between TRS Jax Court, LLC and Peachtree Hospitality Management, LLC (incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated October 1, 2015).

10.11 Amended and Restated Loan Agreement dated December 3, 2008 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2013).

10.12 First Amendment to Amended and Restated Loan Agreement dated February 4, 2009 between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2009).

10.13 Second Amendment to Amended and Restated Loan Agreement dated March 29, 2010 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2010).

10.14 Third Amendment to Amended and Restated Loan Agreement dated March 15, 2011 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2011).

10.15 Fourth Amendment to Amended and Restated Loan Agreement dated December 9, 2011 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 9, 2011).

10.16 Fifth Amendment to Amended and Restated Loan Agreement dated February 21, 2012 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 21, 2012).

10.17 Sixth Amendment to Amended and Restated Loan Agreement dated effective as of December 31, 2012 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated January 17, 2013).

10.18 Seventh Amendment to Amended and Restated Loan Agreement dated March 26, 2013 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 26, 2013).

10.19 Eighth Amendment to Amended and Restated Loan Agreement dated July 31, 2013 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2013).

10.20 Ninth Amendment to Amended and Restated Loan Agreement dated June 30, 2014 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 30, 2014).

10.21 Tenth Amendment and Written Consent to Amended and Restated Loan Agreement dated August 1, 2014 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 1, 2014).

10.22 Eleventh Amendment to Amended and Restated Loan Agreement dated August 1, 2014 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 1, 2014).

10.23 Twelfth Amendment to Amended and Restated Loan Agreement dated November 20, 2014 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 20, 2014).

10.24 Thirteenth Amendment to Amended and Restated Loan Agreement dated June 5, 2015 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 5, 2015).

10.25 Promissory Note, Loan Agreement and form of Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated January 5, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.26 Amendment No. 1 to the Promissory Note dated January 5, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2013).

10.27 Global Amendment and Consent dated March 16, 2009 between Supertel Limited Partnership, SPPR-South Bend, LLC and General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2009).

10.28 Unconditional Guaranties of Payment and Performance dated March 16, 2009, by the Company and Supertel Hospitality REIT Trust to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2009).

10.29 Loan Modification Agreements dated as of September 30, 2009 by and between General Electric Capital Corporation, the Company, Supertel Limited Partnership, Supertel Hospitality REIT Trust and SPPR-South Bend, LLC, (incorporated herein by reference to Exhibits 10.1 and 10.2 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2009).

10.30 Covenant Waiver dated as of November 9, 2009 by General Electric Capital Corporation to the Company, Supertel Limited Partnership, Supertel Hospitality REIT Trust and SPPR-South Bend, LLC, (incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2009).

10.31 Loan Modification Agreement dated as of March 25, 2010 by and between General Electric Capital Corporation, Supertel Limited Partnership, SPPR-South Bend, LLC, Supertel Hospitality REIT Trust and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2010).

10.32 Loan Modification Agreement dated as of March 29, 2012 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Capital Commercial of Utah, LLC and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 29, 2012).

10.33 Loan Waiver and Collateral Agreement dated as of November 14, 2012 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Capital Commercial of Utah, LLC and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.34 Loan Modification Agreement dated as of August 13, 2013 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended June 30, 2013).

10.35 Loan Modification Agreement dated as of November 13, 2013 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2013).

10.36 Loan Modification Agreement dated as of March 14, 2014 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended June 30, 2014).

10.37 Loan Modification Agreement dated as of October 13, 2014 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2014).

10.38 Loan Modification Agreement dated as of December 30, 2014 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 23, 2014).

10.39 Loan Modification Agreement dated as of February 17, 2015 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 17, 2015).

10.40 Loan Agreement, dated as of November 2, 2012, between Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC and Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 2, 2012).

10.41 First Amendment to Loan Agreement, dated as of January 3, 2013, between Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC and Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.42 Guaranty of Recourse Obligations of Borrower, dated as of November 2, 2012, by the Company in favor of Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 2, 2012).

10.43 Cash Management Agreement, dated as of November 2, 2012, among Morgan Stanley Mortgage Capital Holdings LLC, Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC, Hospitality Management Advisors, Inc., Kinseth Hotel Corporation and Strandco, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 2, 2012).

10.44 First Amendment to Cash Management Agreement, dated as of November 5, 2012, among Morgan Stanley Mortgage Capital Holdings LLC, Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC, Hospitality Management Advisors, Inc., Kinseth Hotel Corporation and Strandco, Inc. (incorporated herein by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.45 Loan Agreement dated October 2, 2015 between GE Capital Franchise Finance Corporation and CDOR Atl Indy, LLC and TRS Atl Indy, LLC (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.46 Loan Agreement dated October 2, 2015 between GE Capital Franchise Finance Corporation and CDOR Jax Court, LLC and TRS Jax Court, LLC (incorporated herein by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.47 Term Loan Note dated October 2, 2015 by CDOR Atl Indy, LLC and TRS Atl Indy, LLC to the order of GE Capital Franchise Finance Corporation (incorporated herein by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.48 Term Loan Note dated October 2, 2015 by CDOR Jax Court, LLC and TRS Jax Court, LLC to the order of GE Capital Franchise Finance Corporation (incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.49 Guaranty dated October 2, 2015 by the Company for the benefit of GE Capital Franchise Finance Corporation (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.50 Guaranty dated October 2, 2015 by the Company for the benefit of GE Capital Franchise Finance Corporation (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.51 Assignment and Assumption of Deed of Trust and Other Loan Documents and Modification Agreement dated October 1, 2015 by and among PHG San Antonio, LLC, Jatin Desai, Mitul Patel, and Gregory M. Friedman, CDOR San Spring, LLC, TRS San Spring, LLC and the Company, and LMREC 2015-CRE1, Inc. (incorporated herein by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.52 Promissory Note (Springhill Suites) dated April 21, 2014 by PHG San Antonio, LLC to the order of LMREC III Holdings III, Inc. (incorporated herein by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.53 Deed of Trust, Security Agreement and Financing Statement by PHG San Antonio, LLC to Cyrus N. Ansari, Esq. for the benefit of LMREC III Holdings III, Inc. (incorporated herein by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.54 Indemnity and Guarantee Agreement (Springhill Suites) dated October 1, 2015 by the Company in favor of LMREC 2015-CRE 1, Inc. (incorporated herein by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.55 Lockbox and Security Agreement (Springhill Suites) dated October 1, 2015 by CDOR San Spring, LLC and TRS San Spring, LLC in favor of LMREC 2015-CRE 1, Inc. (incorporated herein by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.56 Purchase Agreement, dated November 16, 2011, by and among the Company, Supertel Limited Partnership and Real Estate Strategies L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A (Commission file number 001-34087) dated November 16, 2011).

10.57 Warrants issued to Real Estate Strategies L.P. dated February 1, 2012 and February 15, 2012 (incorporated herein by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2011).

10.58 Investor Rights and Conversion Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated January 30, 2012).

10.59 Registration Rights Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated January 30, 2012).

10.60 Directors Designation Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated January 30, 2012).

10.61 Agreement, dated August 9, 2013, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anonima (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 9, 2013)

10.62 Agreement, dated July 23, 2015, between Real Estate Strategies L.P., IRSA Inversiones y Representaciones Sociedad Anonima and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 23, 2015).

10.63 The Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2011).

10.64 Amendment to the Company's 2006 Stock Plan dated May 28, 2009 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated May 28, 2009).

10.65 Amendment to the Company's 2006 Stock Plan dated May 22, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated May 22, 2012).

10.66 Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2011).

10.67 Employment Agreement of Kelly Walters, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 1, 2012).

10.68 Employment Agreement of Corrine L. Scarpello, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 1, 2012).

10.69 Employment Agreement of David L. Walter, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 1, 2012).

10.70 Employment Agreement of Steven C. Gilbert, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 1, 2012).

10.71 Jeffrey W. Dougan Employment Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 9, 2013).

10.72 Jeffrey W. Dougan Restricted Stock Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 9, 2013).

10.73 Jeffrey W. Dougan Stock Option Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 9, 2013).

10.74 Kelly Walters Letter Agreement dated September 10, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated September 9, 2014).

10.75 Kelly Walters Letter Agreement dated December 19, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 19, 2014).

10.76 Corrine L. Scarpello Letter Agreement dated December 22, 2014 (incorporated herein by reference to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 22, 2014).

10.77 Kelly Walters Letter Agreement dated January 29, 2015 (incorporated herein by reference to Exhibit 10.69 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2014).

10.78 Employment Agreement between J. William Blackham and the Company dated March 2, 2015 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 2, 2015).

10.79 Common Stock Purchase Warrant dated March 2, 2015 between the Company and J. William Blackham (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 2, 2015).

10.80 Letter dated March 25, 2015 with Corrine L. Scarpello (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 25, 2015).

10.81 Letter dated July 9, 2015 with Corrine L. Scarpello (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 9, 2015).

10.82 Director and Named Executive Officers Compensation is incorporated herein by reference to the sections entitled "Compensation Discussion and Analysis", "Compensation Committee Report", "Summary Compensation Table", "Grants of Plan-Based Awards for Fiscal Year 2015", "Outstanding Equity Awards at Fiscal Year-End", and "Director Compensation" in the Company's Proxy Statement for the Annual Meeting of Stockholders for 2016.

10.83 Purchase and Sale Agreement dated July 14, 2015 between Supertel Limited Partnership and PHG College Park, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 14, 2015).



10.84 Purchase and Sale Agreement dated July 14, 2015 between Supertel Limited Partnership and PHG Jax Flagler, LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 14, 2015).

10.85 Purchase and Sale Agreement dated July 14, 2015 between Supertel Limited Partnership and PHG San Antonio, LLC (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 14, 2015).

10.86 Stock Purchase Agreement, dated as of March 16, 2016, between SREP III Flight-Investco, L.P. and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 16, 2016).

10.87 Investor Rights Agreement, dated as of March 16, 2016, by and among SREP III Flight-Investco, L.P., StepStone Group Real Estate LP and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 16, 2016).

10.88 Agreement, dated as of March 16, 2016, by and among Real Estate Strategies L.P., IRSA Inversiones y Representaciones Sociedad Anónima and the Company (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 16, 2016).

21.0\* Subsidiaries.

23.1\* Consent of KPMG LLP.

31.1\* Section 302 Certification of Chief Executive Officer.

31.2\* Section 302 Certification of Chief Financial Officer.

32.1\* Section 906 Certifications.

101.1\* The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Equity, (iv) the Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

Pursuant to Item 601 (b)(4) of Regulation S-K, certain instruments with respect to the Company's long-term debt are not filed with this Form 10-K. The Company will furnish a copy of any such long-term debt agreement to the Securities and Exchange Commission upon request.

Management contracts and compensatory plans are set forth as Exhibits 10.63 through 10.82.

\* Filed herewith.

## 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.

### Condor Hospitality Trust, Inc.

March 24, 2016

/s/ J. William Blackham  
 \_\_\_\_\_  
 J. William Blackham  
 Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated including a majority of the current members of the board of directors of the registrant.

Signature	Title	Date
/s/ J. William Blackham J. William Blackham	Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	March 24, 2016
/s/Jonathan J. Gantt Jonathan J. Gantt	Chief Financial Officer <i>(Principal Financial Officer)</i>	March 24, 2016
/s/Arinn A. Cavey Arinn A. Cavey	Chief Accounting Officer <i>(Principal Accounting Officer)</i>	March 24, 2016
/s/James H. Friend James Friend	Chairmen of the Board	March 24, 2016
/s/Daphne J. Dufresne Daphne J. Dufresne	Director	March 24, 2016
/s/Daniel R. Elsztain Daniel R. Elsztain	Director	March 24, 2016
/s/Donald J. Landry Donald J. Landry	Director	March 24, 2016
/s/ John M. Sabin John M. Sabin	Director	March 24, 2016

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

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**FORM 10-K/A  
Amendment No. 1**

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(Mark one)

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

For the fiscal year ended December 31, 2015

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: 001-34087

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**Condor Hospitality Trust, Inc.**  
(Exact name of registrant as specified in its charter)

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

**52-1889548**  
(I.R.S. Employer  
Identification No.)

**1800 W. Pasewalk Ave., Norfolk, NE**  
(Address of principal executive offices)

**68701**  
(Zip Code)

**(402) 371-2520**  
(Registrant's telephone number, including area code)

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

Title of each class  
Common Stock, \$.01 par value per share

Name of each exchange on which registered  
The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 or the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of June 30, 2015 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$10.6 million based on the price at which the common stock was last sold on that date as reported on the Nasdaq Global Market. At March 18, 2016, there were 4,941,878 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

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## EXPLANATORY NOTE

Condor Hospitality Trust, Inc. (references to “we,” “our,” “us,” and “Company” refer to Condor Hospitality Trust, Inc., including, as the context requires, its direct and indirect subsidiaries) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to amend our Annual Report on Form 10-K for the year ended December 31, 2015, originally filed with the Securities and Exchange Commission (the “SEC”) on March 24, 2016 (the “Original 10-K Filing”), solely for the purpose of including the information required by Part III of Form 10-K. Such information was previously omitted from the Original 10-K Filing in reliance on General Instruction G(3) to Form 10-K, which permits the information in the above referenced items to be incorporated in the Form 10-K by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders if such proxy statement is filed no later than 120 days after our fiscal year end. We are filing this Amendment to include Part III information in our Form 10-K. The reference on the cover of the Original 10-K Filing to the incorporation by reference to portions of our definitive proxy statement into Part III of the Original 10-K Filing is hereby deleted.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Part III, Items 10 through 14 of the Original 10-K Filing are hereby amended and restated in their entirety, and Part IV, Item 15 of the Original 10-K Filing is hereby amended and restated in its entirety, with the only changes being the addition of new certifications by our principal executive officer and principal financial officer filed herewith and related footnotes. This Amendment does not amend or otherwise update any other information in the Original 10-K Filing. Accordingly, this Amendment should be read in conjunction with the Original 10-K Filing and with our filings with the SEC subsequent to the Original 10-K Filing.

## FORWARD-LOOKING STATEMENTS

Certain information both included and incorporated by reference in this Amendment may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on assumptions that management has made in light of experience in the business in which we operate, as well as management’s perceptions of historical trends, current conditions, expected future developments, and other factors believed to be appropriate under the circumstances. These statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond our control), and assumptions. Management believes that these forward-looking statements are based on reasonable assumptions.

Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations are generally identifiable by use of the words “may,” “will,” “should,” “expect,” “anticipate,” “estimate,” “believe,” “intend,” or “project” or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in: economic conditions generally and the real estate market specifically, legislative/regulatory changes (including changes to laws governing the taxation of real estate investment trusts), availability of capital, risks associated with debt financing, interest rates, competition, supply and demand for hotel rooms in our current and proposed market areas, policies and guidelines applicable to real estate investment trusts, and other risks and uncertainties described herein, and in our filings with the SEC from time to time. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein. We caution readers not to place undue reliance on any forward-looking statements included in this report which speak only as of the date of this report.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

#### Executive Officers of the Company

Information on our President and Chief Executive Officer, Mr. Blackham, is included below with information on our directors. Our other executive officers at April 28, 2016, their ages, positions held, and the business experience of each during the past five years are, as follows:

**Jonathan J. Gantt**, age 34, Senior Vice President and Chief Financial Officer since October 2015. Mr. Gantt served as Director, Treasury, Capital Markets and M&A of Starwood Hotels & Resorts Worldwide, Inc. (NYSE: HOT) from July 2013 to October 2015. From July 2011 to July 2013 he attended the Tuck School of Business at Dartmouth, from which he received his Masters of Business Administration degree, with distinction. He served as an associate and analyst with Summer Street Capital Partners from February 2007 to July 2011. Prior to Summer Street Capital Partners, he served on the asset management team of HEI Hotels. Mr. Gantt is a graduate of the School of Hotel Administration at Cornell University, from which he received Bachelor of Science degree, with distinction.

**Arinn Cavey**, age 36, Chief Accounting Officer since September 2015. Prior to joining the Company, Ms. Cavey was employed with KPMG LLP since September 2002, last serving as an Audit Senior Manager. She has extensive audit experience in the consumer and industrial markets industries. She has provided professional audit services to publicly-held SEC registrants in accordance with PCAOB requirements and U.S. GAAP as well as to private companies in accordance with AICPA requirements. She is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from Drake University.

**Jeffrey W. Dougan**, age 56, Senior Vice President and Chief Operating Officer since July 2013. Mr. Dougan he is responsible for overseeing the Company's third party management companies, hotel operations, as well as maintaining relationships with current and future brand families. Mr. Dougan previously served more than 25 years in the hospitality industry. From June 2008 to July 2013, Mr. Dougan was a former Vice President of Operations for Stonebridge Hospitality where he oversaw a diverse hotel portfolio featuring eight different brands in a variety of segments. He has held a number of industry positions with leading companies, including Vice President of Operations at Sage Hospitality Resources, Area Operations Manager at the Homestead Village in Colorado and New Mexico, and General Manager at the Grand Aspen Hotel and the Dillon Comfort Suites, both in Colorado. Mr. Dougan holds a Bachelor of Science degree in Business Administration from the Rochester Institute of Technology.

The names of the Company's nine directors and certain information about the directors, as of April 28, 2016, are set forth below.

#### Directors

**J. William Blackham**, *Director, President and Chief Executive Officer*. Mr. Blackham, age 62, was appointed President and Chief Executive Officer and a member of the Board of Directors on March 2, 2015. Mr. Blackham, since 2008 to present, is a co-owner and the managing member of Trinity Investment Partners, LLC. Also since early 2011, he has served as the owner and managing member of Proximo Investments & Advisors, LLC, an investment and advisory company, and in various roles, including consultant, trustee and manager of affiliates, for Assured Administration, LLC. He was president and CEO of Eagle Hospitality, a hotel REIT which traded on the NYSE until its sale in 2007 and has been active for several decades in entities involved in real estate and hospitality development, acquisition and advisory services.

Mr. Blackham's extensive experience as a leader of real estate ventures, his public hospitality REIT experience, and his proven capital raising experience provides the Board with strong leadership and expertise in the hospitality REIT industry.

**Daphne J. Dufresne**, *Director*. Ms. Dufresne, age 43, has been a Managing Director of RLJ Equity Partners ("RLJ"), a private equity fund since 2006. Ms. Dufresne participated in building the RLJ investment team, raising \$230 million of institutional capital, and constructing a partnership with The Carlyle Group, a global private equity firm. Prior to RLJ, Ms. Dufresne was a Venture Partner during 2005 with Parish Capital Advisors, a \$425 million fund of funds for emerging and experienced institutional investors and a Principal from 1999 to 2005 at Weston Presidio Capital, a private equity organization with \$3.4 billion of assets under management. She also served as Associate Director in 1997 in the Bank of Scotland's Structured Finance Group. Ms. Dufresne received her B.S. from the University of Pennsylvania and her M.B.A. from the Harvard Business School. Ms. Dufresne has been a director of the Company since June 2015.

Ms. Dufresne extensive experience with capital sources and capital raising provides the Board with substantial experience and expertise in reviewing and improving the Company's capital structure.

Committees: Investment Committee

**Daniel R. Elsztain**, *Director*. Mr. Elsztain, age 43, obtained a degree in Economic Sciences from the Torcuato Di Tella University and has a Masters in Business Administration from the Austral IAE University. At present, he is a member of the board of IRSA Inversiones y Representaciones Sociedad Anónima ("IRSA"), a real estate public company listed both on the New York Stock Exchange ("NYSE") and the Buenos Aires Stock Exchange ("BASE"), as well as its Chief Operating Officer and other executive capacities since 2004. He is a board member of Alto Palermo S.A. (APSA), a retail public company listed both on NASDAQ and BASE. Mr. Elsztain has been a director of the Company since February 2012.

His extensive experience in IRSA's real estate operations and his participation on other public company boards provides the Board with a source of substantial lodging and real estate knowledge.

Committees: Compensation Committee, Nominating Committee and Investment Committee

**James H. Friend**, *Chairman of the Board*. Mr. Friend, age 64, has been president and CEO of Friend Development Group, LLC since 1997 and has been actively involved in the hotel and real estate business for more than 26 years. Mr. Friend has extensive experience in the development process, including ground-up development, renovations, adaptive re-use and mixed-use developments. He has particular expertise developing and financing complicated real estate projects in urban and suburban areas. Mr. Friend has arranged financing for hotel and other real estate projects in excess of \$600 million. He has worked closely with all major hotel brands, including Hilton, Marriott, Hyatt, Starwood, Intercontinental, Wyndham and Choice. He also has experience working with numerous luxury and independent luxury hotel brands as well as with branded and unbranded boutique hotels. Mr. Friend has partnered with major institutions, investment funds, high net worth families and significant hotel investment groups. He has advised NYSE companies, REIT's, banks, hedge funds and privately held companies in a wide range of real estate product types, including hotels, retail, assisted living, multi-family and mixed-use development.

Mr. Friend is a graduate of Stanford University and the Northwestern University School of Law. He is a member of the Bar of the State of New York. He has served on various philanthropic boards, including the Richard Tucker Music Foundation, board of directors of the Stanford Alumni Association and currently is the chairman of the Stanford New York Alumni. He also has served as an adjunct professor at the Tisch Center for Hospitality, Tourism and Sports Management at New York University. Mr. Friend has been a director of the Company since February 2012.

Mr. Friend's years of work in the hotel and real estate industry provides the Board with a diverse and unique source of hotel and real estate knowledge.

Committees: Audit Committee

**Jeffrey Giller**, *Director*. Mr. Giller, age 54, is a Partner and the Head of StepStone Real Estate LP, since June 2014, and chairs the Real Estate Investment Committee and focuses on management activities and global real estate investments. Mr. Giller was a founder, Managing Partner and the Chief Investment Officer of Clairvue Capital Partners since April 2010, a real estate manager which integrated with StepStone to establish StepStone Real Estate. Before Clairvue, he was a Managing Principal and Chief Investment Officer at Liquid Realty Partners from September 2005 to October 2009, an investment manager focused on real estate private equity secondaries. Mr. Giller has also held senior positions in other real estate private equity investment firms in the U.S. and Europe. As Managing Director of JER France, SA from 1995 to 2000, he was instrumental in starting, building and overseeing JER Partners' first offshore business, located in Paris, France. Mr. Giller earned an MBA from the University of Virginia and a BA from the University of California at Berkeley. Mr. Giller has been a director of the Company since March 2016.

Mr. Giller's substantial experience in leading real estate investment firms and capital raising provides the Board with unique leadership and capital raising experience.

**Donald J. Landry, Director.** Mr. Landry, age 67, is president and owner of Top Ten, an independent hospitality industry consulting company. Mr. Landry has over 45 years of lodging and hospitality experience in a variety of leadership positions. Most recently, Mr. Landry was the Chief Executive Officer, President and Vice Chairman of Sunburst Hospitality Inc. Mr. Landry has also served as President of Choice Hotels International, Inc., Manor Care Hotel Division and Richfield Hotel Management. Mr. Landry currently serves on the corporate advisory boards of Campo Architects, UniFocus and Windsor Capital Group and numerous nonprofit boards. Mr. Landry is a member of the board of trustees of Hersha Hospitality Trust. Mr. Landry is a frequent guest lecturer at the University of New Orleans where he serves on the board of the School of Hospitality, Restaurant and Tourism. Mr. Landry holds a bachelor of science from the University of New Orleans, which awarded him Alumnus of the Year in 1999. Mr. Landry is a Certified Hotel Administrator. Mr. Landry has been a director of the Company since February 2012.

Mr. Landry's more than 45 years of experience in the lodging and real estate industries, including his roles as Chief Executive Officer, President and Vice Chairman of Sunburst Hospitality Inc. and President of Choice Hotels International, Inc., Manor Care Hotel Division and Richfield Hotel Management provides the Board with an experienced source on lodging and real estate industries.

Committees: Nominating Committee and Investment Committee

**Mark D. Linehan, Director.** Mr. Linehan, age 54, has served as President and Chief Executive Officer of Wynmark Company since he founded the company in 1993. Wynmark Company is a private real estate investment and development company with interests in properties in California, Nevada, Oregon and Montana. Prior to founding Wynmark Company, Mr. Linehan was a Senior Vice President with the Trammell Crow Company in Los Angeles, California. Before that, Mr. Linehan was with Kenneth Leventhal & Co. (now Ernst & Young LLP), a Los Angeles-based public accounting firm. He has served on the board of Hudson Pacific Properties (NYSE:HPP) since their IPO. In addition, Mr. Linehan is actively involved with the community through his service on the board of Direct Relief, the UC Santa Barbara Foundation, and the National Cowboy and Western Heritage Museum. Mr. Linehan received a Bachelor of Arts degree in Business Economics from the University of California, Santa Barbara and is a Certified Public Accountant. Mr. Linehan has been a director of the Company since March 2016.

Mr. Linehan's extensive experience in real estate investment and development as well as his expertise in accounting matters and service on public company committees provides the Board with an experienced public company director and a source of real estate development and accounting knowledge for public companies.

Committees: Audit Committee

**Brendan MacDonald, Director.** Mr. MacDonald, age 37, is a Partner of StepStone Real Estate LP since June 2014, a member of the real estate investment committee, with a primary focus on sourcing and executing investments on behalf of StepStone's real estate fund and separate account vehicles. Mr. MacDonald was a founding partner of Clairvue Capital Partners since April 2010, a real estate investment manager which integrated with StepStone to establish StepStone Real Estate. At Clairvue, he was an investment committee member and focused on sourcing, underwriting and managing investments in the U.S., Europe and Latin America. Before Clairvue, he was a Director at Liquid Realty Partners, from January 2007 to October 2009, an investment manager focused on real estate private equity secondaries and held an acquisitions role at Babcock and Brown. Earlier in his career he completed GE Capital's Financial Management Program and was part of GE's global Sponsor Finance business. Mr. MacDonald received an MBA from Harvard Business School and a BS from Indiana University. Mr. MacDonald has been a director of the Company since March 2016.

Mr. MacDonald's years of experience in real estate investment and capital raising provides the Board with significant expertise in growing the Company.



Committees: Compensation Committee, Nominating Committee and Investment Committee

**John M. Sabin, Director.** Since May 2011, Mr. Sabin, age 61, has been the Executive Vice President and Chief Financial Officer of Revolution LLC as well as the Chief Financial Officer of The Stephen Case Foundation and the Case Family Office. Previously he was the Chief Financial Officer and General Counsel of Phoenix Health Systems, Inc. a private healthcare information technology outsourcing and consulting firm, from October 2004 to May 2011. Mr. Sabin was the Chief Financial Officer, General Counsel and Secretary of NovaScreen Biosciences Corporation, a private bioinformatics and contract research biotech company, from January 2000 to October 2004. Prior to joining NovaScreen, Mr. Sabin served as a finance executive with Hudson Hotels Corporation, Vistana, Inc., Choice Hotels International, Inc., Manor Care, Inc. and Marriott International, Inc. all of which were public companies at the time of his service. In his professional life Mr. Sabin has had commercial lease experience with a national law firm, transactional real estate experience with national hospitality and health care firms, commercial real estate financing experience, IPO experience, as well as experience as an audit committee and board member of several other public companies. Mr. Sabin is a member of the board of trustees of Hersha Hospitality Trust. Mr. Sabin has received Bachelor of Science degrees in Accounting and in University Studies; a Masters of Accountancy and a Masters in Business Administration from Brigham Young University, and he also received a Juris Doctor from the J. Reuben Clark Law School at Brigham Young University. Mr. Sabin is a licensed CPA and is admitted to the bar in several states. Mr. Sabin has been a director of the Company since February 2012.

Mr. Sabin's qualifications include substantial hospitality industry experience, as well as his substantial legal, finance and accounting experience. His current and prior service as both General Counsel and Chief Financial Officer of various companies provides the Board with valuable insights with respect to finance, accounting, legal and corporate governance matters.

Committees: Audit Committee and Compensation Committee

#### **Section 16(A) Beneficial Ownership Reporting Compliance**

Under United States securities laws, the Company's directors and executive officers, and persons who own more than 10% of our common stock, are required to report their ownership of the common stock and any changes in ownership to the Securities and Exchange Commission (the "SEC"). These persons are also required by SEC regulations to furnish the Company with copies of these reports. Specific due dates for these reports have been established, and the Company is required to report in this report any failure to file such reports by those due dates during the 2015 fiscal year.

Based solely upon a review of the reports furnished to the Company or written representations from the Company's directors and executive officers, the Company believes that all of these filing requirements were satisfied by the Company's directors and executive officers, and owners of more than 10% of the common stock on a timely basis except Form 4's for each of Mr. Walters and Ms. Scarpello reporting shares deducted to cover vesting of restricted stock awards were inadvertently filed eleven days late.

#### **Corporate Governance**

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer and has posted the Code of Business Conduct and Ethics on its Web site at [www.condorhospitality.com](http://www.condorhospitality.com). The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of the Code of Business Conduct and Ethics applicable to the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer by posting that information on the Company's Web site at [www.condorhospitality.com](http://www.condorhospitality.com).

#### **Audit Committee**

Currently, the Audit Committee consists of Messrs. Sabin (Chairman), Friend and Linehan. During 2015, the Audit Committee consisted of Messrs. Sabin (Chairman), Friend, and George R. Whittemore, a former director. All members of the Audit Committee are independent within the meaning of the Nasdaq Stock Market listing standards.

The Audit Committee is responsible for the engagement of the independent registered public accounting firm, reviews with the independent registered public accounting firm the plans and results of the audit engagement, approves professional services provided by the independent registered public accounting firm, reviews the independence of the independent registered public accounting firm, considers the range of audit and non-audit fees and reviews the adequacy of the Company's internal accounting controls. The Audit Committee pre-approves all audit and non-audit services performed by the independent auditor. The Board of Directors has determined that Messrs. Sabin and Linehan are audit committee financial experts within the meaning of regulations of the Securities and Exchange Commission (the "SEC"). The Audit Committee operates pursuant to a written charter adopted by the Board of Directors. A copy of the charter is available on our website at <http://condorhospitality.com> in the Investor Relations section under "Governance Docs." The Audit Committee has a written policy with respect to its review and approval or ratification of transactions between the Company and a director, executive officer or related person covered by the SEC's rule S-K 404(a).

## **Item 11. Executive Compensation**

### **Compensation Discussion And Analysis**

The following compensation discussion and analysis provides information which the Compensation Committee of the Board of Directors (the "Committee") believes is relevant to an assessment and understanding of compensation awarded to, earned by or paid to the Company's executive officers listed in the summary compensation table (named executive officers). This discussion should be read in conjunction with the summary compensation table and related tables below.

**Compensation Practices.** The Company had significant senior level management changes in 2015 with the employment of a new Chief Executive Officer and Chief Financial Officer. The Committee anticipates that it may develop additional compensation practices not reflected in this discussion or the associated tables as the Company's business evolves under the new senior management.

**Compensation Overview and Objective.** The Committee has the responsibility for developing and maintaining an executive compensation policy for named executive officers that creates a direct relationship between pay levels and corporate performance and returns to shareholders. The objective of the Company's compensation program is to attract and retain a high caliber of management who will manage the Company in a manner that will promote its goals to achieve long term profitability and to advance the interest of the Company's shareholders. The compensation program for named executive officers seeks to achieve the objective of retaining a high caliber of management by:

- providing overall competitive pay levels,
- creating proper incentives to enhance shareholder value,
- rewarding superior performance, and
- compensating at levels that are justified by the returns available to shareholders.

### **Senior Management Transition**

Following Kelly Walters' announcement in September 2014 of his intention to step down as Chief Executive Officer of the Company, the Board of Directors formed a Search Committee consisting of Messrs. Friend, Landry and Sabin (Chairman). The Search Committee was tasked with searching for, evaluating, and providing the Board of Directors with candidates for the position of Chief Executive Officer. The Search Committee reviewed candidates and conducted interviews through February 2015. On March 2, 2015, Mr. Blackham was appointed Chief Executive Officer of the Company by the Board of Directors, following the committee's successful search and evaluation and based on the committee's recommendation. Ferguson Partners Ltd. was retained by the Search Committee to identify executive officer candidates for Chief Executive Officer and Chief Financial Officer, and was paid \$250,000 for these services.

**Chief Executive Officer Transition.** The terms of Mr. Blackham's employment were approved by the Committee. Mr. Blackham's employment agreement has a three year term, and under the employment agreement he (i) receives an annual base salary of \$350,000, (ii) receives consideration for an annual cash bonus and (iii) is eligible to participate in any Company long-term incentive program. Pursuant to his 2015 annual bonus plan, he had a target performance bonus equal up to 100% of his base salary for achieving key performance objectives of market capitalization growth, developing and executing the 2015 business plan, executing a property acquisition and divestment plan, improving the performance of the legacy hotel portfolio and leading the management team. The Committee determined that Mr. Blackham met 95% of the 2015 performance goals and awarded him 95% of his base salary as his bonus.

As an inducement to accept employment, Mr. Blackham received a warrant to purchase 657,894 shares of common stock. Mr. Blackham has exercised the warrant to purchase 227,894 shares of common stock and may exercise the balance of the warrant, in whole or in part, until March 2, 2018, to purchase 430,000 shares of common stock at \$1.92 per share.

As an inducement to accept employment, Mr. Blackham was granted an equity award of 5,263,152 long-term incentive plan units ("LTIP Units"), representing profit interests in the Company's operating partnership. The LTIP Units are earned in one-third increments upon the Company's common stock achieving price per share milestones of \$3.50, \$4.50 and \$5.50 respectively. Earned LTIP Units vest in March 2018, or earlier upon a change in control of the Company, and can be redeemed at the rate of one share of common stock for each eight earned LTIP Units for up to 657,894 shares of common stock.

As an inducement to Mr. Walters to continue as Chief Executive Officer until his successor was appointed, the Committee granted him three months base salary and benefits to be paid in accordance with the Company's customary payroll practices following his resignation as Chief Executive Officer.

**Chief Financial Officer Transition.** Jonathan J. Gantt joined Condor as Senior Vice President and Chief Financial Officer on October 27, 2015. The terms of Mr. Gantt's employment were approved by the Committee. Mr. Gantt's annual base salary is \$215,000. He is eligible for annual cash bonuses of up to 40% of his base salary for achievement of performance targets when set by the Committee. He is eligible for equity awards of up to 60% of his base salary for achievement of performance targets when set by the Committee. He received \$20,000 on employment commencement in recognition of bonus forfeiture at his former employer and as relocation expenses. He is entitled to participate in Condor's employee benefit plans and 401K plan.

As an inducement to Ms. Scarpello to continue as Chief Financial Officer until her successor was appointed, the Committee granted her four and one-half months base salary and benefits to be paid in accordance with the Company's customary payroll practices following her resignation as Chief Financial Officer.

**Components of Compensation.** The Company's executive compensation has three components, each of which is intended to support the overall compensation objective of retaining a high caliber of management. The three components are base salary, annual bonuses, and equity incentives.

*Base Salary.* Base salary is targeted to be competitive to attract and retain executives qualified to manage a hotel REIT. Base salary is intended to compensate the executive for satisfying the requirements of the position. Salaries for executive officers are typically reviewed by the Compensation Committee on an annual basis and may be changed based on the individual's performance or a change in competitive pay levels in the marketplace.

*Annual Bonuses.* The Compensation Committee determined that Mr. Blackham met 95% of his annual 2015 performance objectives, and awarded him a performance bonus equal to 95% of his base salary. In recognition of Mr. Dougan's performance as Chief Operating Officer in 2015, the Compensation Committee approved a cash bonus of \$30,750.

*Equity Incentive Plan.* Equity stock incentives were previously provided primarily through grants of stock options to executive officers pursuant to the shareholder approved Company 2006 Stock Plan. The Committee recognizes the value of equity incentives in assisting the Company in the hiring and retaining of management personnel and in

enhancing the long-term mutuality of interest between the Company shareholders and its directors, officers and employees. Stock options are granted at the market value on the date of the grant and have value only if the Company's stock price increases. Employees must be employed by the Company at the time of vesting in order to exercise the options.

No equity awards were granted under the Company 2006 Stock Plan to the named executive officers in 2015. The 2006 Stock Plan expired on December 31, 2015, and the Company has adopted, and is presenting to the Company shareholders for approval, the 2016 Stock Plan, for the benefit of its named officers and other employees. If approved by the Company shareholders, it is expected that equity awards under the 2016 Stock Plan will be granted in 2016 as part of the compensation for Company employees.

The Company does not have a pension plan. The Company's executive officers may participate in its 401(k) Plan on the same terms as other participating employees. The Company does not maintain a perquisite program for its executive officers.

### Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION COMMITTEE  
John M. Sabin (Chairman)  
Daniel R. Elsztain  
Brendan MacDonald

### Summary Compensation Table

<i>Name and Principal Position</i>	<i>Year</i>	<i>Salary (\$)</i>	<i>Bonus (\$)</i>	<i>Stock Awards \$(1)</i>	<i>Option Awards \$(1)</i>	<i>Non-Equity Incentive Plan Compensation</i>	<i>All Other Compensation \$(2)</i>	<i>Total (\$)</i>
J. William Blackham(3) President and Chief Executive Officer	2015	321,465	0	341,280	311,020	332,500	10,600	1,316,865
Jonathan J. Gantt(4) Chief Financial Officer and Senior Vice President	2015	32,281	0	0	0	0	21,813	54,094
Jeffrey W. Dougan(5) Chief Operating Officer	2015	209,609	30,750	0	0	0	8,269	248,628
	2014	190,000	19,000	0	0	0	8,425	217,425
	2013	84,038	25,000	22,750	5,000	0	4,362	141,150
Kelly A. Walters(6) Former Chief Executive Officer	2015	74,572	0	0	0	0	81,897	156,469
	2014	290,000	0	0	0	0	10,400	300,400
	2013	290,000	0	0	0	0	10,200	300,200
Corrine L. Scarpello(7) Former Chief Financial Officer	2015	169,315	0	0	0	0	38,848	208,163
	2014	200,100	0	0	0	0	8,133	208,233
	2013	200,100	0	0	0	0	8,408	208,508
Patrick E. Beans (8) Former Treasurer	2015	133,846	0	0	0	0	17,002	150,848
	2014	145,000	0	0	0	0	5,850	150,850
	2013	133,846	0	0	0	0	5,354	139,200

- (1) These columns reflect the grant date fair value of the stock awards, performance shares and stock options (warrants in the case of Mr. Blackham) granted in accordance with FASB Accounting Standards Codification Topic 718. The performance share award and warrants were granted to Mr. Blackham as an inducement to accept employment. The maximum performance share award value, if earned (exclusive of increase in performance share value based on increases in the Company's stock price), would be 1.5 times the amount shown in the "Stock Awards" column for Mr. Blackham. See "Grants of Plan Based Awards for Fiscal 2015". See footnote 12 to the Company's consolidated financial statements for the assumptions used in the valuation of these awards.
- (2) Amounts for the named executive officers represent contributions credited by the Company during 2015, 2014 and 2013 to its 401(k) plan. Mr. Gantt received \$20,000 on employment commencement in recognition of bonus forfeiture at his former employer and as relocation expenses. Amounts include post-employment severance of (a) \$75,845 for Mr. Walters, (b) \$30,784 for Ms. Scarpello, and (c) \$11,153 for Mr. Beans.
- (3) Mr. Blackham became our President and Chief Executive Officer in March 2015 with an annual base salary of \$350,000. Mr. Blackham earned \$332,500 for achievement of performance goals under his 2015 Annual Bonus Plan which is reported in the "Non-Equity Incentive Plan Compensation" column.
- (4) Mr. Gantt became our Senior Vice President and Chief Financial Officer in October 2015, with an annual base salary of \$215,000.
- (5) Mr. Dougan was paid a discretionary cash bonus of \$30,750 for 2015.
- (6) Mr. Walters was our Chief Executive Officer until March 2015.
- (7) Ms. Scarpello was our Chief Financial Officer until October 2015.
- (8) Mr. Beans was our Treasurer until November 2015.

#### Grants of Plan-Based Awards for Fiscal 2015

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (\$)(1)			Estimated Future Payouts Under Equity Incentive Plan Awards (# of shares)(1)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/share) (2)	Grant Date Fair Value of Stock and Option Awards (\$)(3)
		Threshold	Target	Maximum	Threshold	Target	Maximum				
J. William Blackham	3/2/15	0	N/A	350,000	219,298	438,596	657,894	0	227,894	\$ 1.52	14,668
	3/2/15								430,000	\$ 1.92	296,352

- (1) Non-equity incentive awards were made with respect to Mr. Blackham's 2015 annual incentive plan. Equity incentive plan awards represent partnership interests in the Company's operating partnership. On March 2, 2015, the Company granted an equity award of 5,263,152 LTIP units, representing profit interests in the Company's operating partnership, to Mr. Blackham. The LTIP units are earned in one-third increments upon the Company's common stock achieving price per share milestones of \$3.50, \$4.50, and \$5.50, respectively. Earned LTIP Units vest in March 2018, or earlier upon a change in control of the Company, and can be redeemed at the rate of one share of common stock for each eight earned LTIP units for up to 657,894 of shares of common stock.
- (2) On March 2, 2015, the Company granted a warrant to Mr. Blackham as an inducement material to his acceptance of employment. The warrant entitles Mr. Blackham to purchase a total of 657,894 shares of common stock with a grant date price at (i) \$1.52 per share (the adjusted closing bid price of the common stock on Nasdaq on March 2, 2015) if at least one-third but not more than one-half of the shares were purchased on or prior to March 17, 2015, and (ii) \$1.92 per share for shares purchased after. The warrant has a three-year term. Mr. Blackham exercised the warrant in part to purchase 227,894 shares on March 11, 2015 at the price of \$1.52 per share. The warrant remains exercisable for 430,000 shares at an exercise price of \$1.92 per share. As of December 31, 2015, the total unrecognized compensation cost related to the warrants was approximately \$214,000, which is expected to be recognized over the next 26 months.
- (3) See footnote 12 to the Company's consolidated financial statements for the assumptions used in valuing the awards.

## Outstanding Equity Awards at Fiscal Year-End

<u>Name</u>	Option Awards				Stock Awards			
	<i>Number of Securities Underlying Unexercised Options (#) Exercisable</i>	<i>Number of Securities Underlying Unexercised Options (#) Unexercisable (1)</i>	<i>Option Exercise Price (\$)</i>	<i>Option Expiration Date</i>	<i>Number of Shares or Units of Stock That Have Not Vested (#) (2)</i>	<i>Market Value of Shares or Units of Stock That Have Not Vested (\$)</i>	<i>Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested (#)(3)</i>	<i>Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)(3)</i>
J. William Blackham	430,000	0	1.92	March 2, 2018			438,596	548,245
Jeffrey W. Dougan	2,083	1,042	8.08	July 15, 2017	1,042	1,302		

- (1) The options expiring on July 15, 2017 vested and will vest in equal one-third increments on July 15, 2014, 2015 and 2016.
- (2) The restricted shares for Mr. Dougan vested and will vest in one-third increments on July 15, 2014, 2015, and 2016. Market value is based on the closing price of the common stock on December 31, 2015.
- (3) Number shown is based on the target number of LTIPs which can be earned. See Compensation Discussion and Analysis for a description of the provisions of the LTIPs. The market value is based on the closing market price of the common stock at the end of the 2015 fiscal year (\$1.25 per share).

## Option Exercises and Stock Vested in 2015

<u>Name</u>	Option Awards		Stock Awards	
	<i>Number of Shares Acquired on Exercise (#)</i>	<i>Value Realized on Exercise (\$)(1)</i>	<i>Number of Shares Acquired on Vesting (#)</i>	<i>Value Realized on Vesting (\$)(2)</i>
J. William Blackham	227,894	54,694		
Jeffrey W. Dougan			1,042	2,852

- (1) Difference between the exercise price of the warrant and market price on date of exercise.
- (2) Based on the market price on vesting date.

## Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued upon exercise of options, warrants, and rights under existing equity compensation plans as of December 31, 2015:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (including securities plans reflected in column(a)) (c)
Equity compensation plans approved by security holders	2,500	\$ 7.84	0 (1)
Equity compensation plans not approved by security holders	433,125	1.96	0
Total	435,625	\$ 2.00	0

- (1) Represents shares issuable under the Company's 2006 Stock Plan. On December 31, 2015, the 2006 Stock Plan expired. Expiration of the 2006 Stock Plan does not impact awards issued under the plan prior to its expiration.

## Potential Payments Upon Termination or Change-in-Control

If the employment of Mr. Blackham is terminated with cause, he will receive (i) accrued and unpaid base salary to the date of termination, (ii) the accrued and unused vacation to the date of termination, (iii) unpaid expense reimbursements, and (iv) vested amounts under qualified retirement plans. In addition, if he terminates employment without good reason he will also receive unpaid bonuses earned for completed prior fiscal years. If his employment is terminated without cause or if he terminates employment with good reason, in addition to the foregoing, he will receive: (i) an amount equal to one times (1x) base salary, (ii) an amount equal to one times (1x) the average annual bonus previously earned for up to the prior three (3) years, (iii) the immediate vesting of equity awards solely subject to time vesting, and (iv) any awards, not yet earned but may be earned based on the achievement of the applicable performance criteria, vested at a pro rata amount based on the performance period to the date of termination. Additionally, the Company will also pay his COBRA premiums during the period that he elects to receive COBRA coverage under the Company's group health plans, not to exceed 18 months. If within 12 months following a change in control his employment is terminated other than for cause or by reason of death or disability or he terminates his employment for good reason, the additional base salary payment will be increased to two times (2x) base salary and the annual bonus payment will be increased to two times (2x) the average annual bonus previously earned for up to the prior three (3) years.

"Cause" under Mr. Blackham's employment agreement includes certain (i) dishonest or fraudulent actions, felony conviction, (ii) a material failure to devote substantially all of his business time to the business of the Company or to follow the Company's good faith instructions and directives; (iii) unreasonable and material neglect, refusal or failure to perform assigned duties; (iv) material breach by him of his employment agreement, the Company's Code of Business Conduct and Ethics or similar codes; (v) any act bringing substantial public disrespect or scandal or ridicule of the Company, or (vi) any governmental regulatory agency recommends or orders that the Company terminate his employment or relieve him of his duties. "Change in Control" under Mr. Blackham's employment agreement includes certain acquisitions of 50% or more of common stock or voting power of the Company, certain changes in the Board of Directors, or certain mergers or similar transactions if the shareholders prior to the transaction do not hold 50% of the voting power afterwards, or a liquidation or sale of than 50% of the Company assets.

Mr. Dougan's restricted stock award agreement provides that his restricted stock award immediately vests in the event of a change of control (as defined in the Company 2006 Stock Plan). A change in control, defined in the Company's 2006 Stock Plan, generally occurs if: (i) a person, entity or group (excluding Company plans) acquires 50% or more of the Company's common stock or total voting power of the Company's voting securities; (ii) incumbent directors or their replacements (whose election or nomination was approved by at least a majority of then incumbent directors) cease to constitute a majority of the board; (iii) a reorganization, merger, consolidation, or sale of substantially all of the Company's assets occurs unless the Company's shareholders prior to the transaction own after the transaction 50% or more of the voting power of the Company's securities; and (iv) the Company is liquidated or dissolved. If such a change in control had occurred on the last day of fiscal 2015, the value of unvested restricted stock held by Mr. Dougan would have been \$1,302. The unvested restricted stock for Mr. Dougan is set forth in the Outstanding Equity Awards at Fiscal Year-End table.

#### Director Compensation

<i>Name</i>	<i>Fees Earned or Paid in Cash (\$)</i>	<i>Stock Awards (\$)</i>	<i>Option Awards (\$)</i>	<i>Total (\$)</i>
Daphne J. Dufresne	16,153	0	0	16,153
John Dinkel	16,153	0	0	16,153
Daniel R. Elsztain	27,500	7,449	0	34,949
James H. Friend	58,000	4,407	0	62,407
Donald J. Landry	30,000	11,167	0	41,167
John M. Sabin	31,500	7,449	0	38,949
Kelly A. Walters	16,983	0	0	16,983
George R. Whittemore	31,500	7,449	0	38,949

Ms. Dufresne and Mr. Dinkel joined the Board of Directors in June 2015. Mr. Walters became a non-executive director in March 2015. Messrs. Dinkel, Walters and Whittemore resigned from the Board in March 2016.

During 2015, Directors receive an annual retainer of \$20,000. Additionally, directors received fees of \$1,000 per board meeting attended in person and \$500 per telephonic board meeting. Committee chairmen received compensation as follows: Audit Committee chairman annual retainer of \$3,000 and Compensation Committee chairman annual retainer of \$1,500. Each Audit Committee member, other than the chairman, receives a fee of \$375 per quarter. From time to time, directors, as authorized representatives of the Board, engage in Board duties outside of meetings, and receive fees for the performance of such additional Board duties in an hourly or daily amount previously set by the Board. Mr. Friend received additional fees of \$28,000 in connection with performance of additional Board duties related to the transition of the Company's new chief executive officer. The Investment Committee chairman receives a monthly fee of \$750. Each member of the Investment Committee who is an independent director, other than the chairman, receives a monthly fee of \$500. The fees to the Investment Committee were paid quarterly in common stock issued under the 2006 Stock Plan, based on a value per share equal to the average of the closing price of the common stock during the first 20 trading days of the year. If the 2016 Stock Plan is approved by Company shareholders at the Company's 2016 annual shareholders meeting, the Investment Committee members who have not received equity compensation in 2016 are expected to receive equity compensation for their service since January 1, 2016.

#### **Item 12. Securities Ownership Of Certain Beneficial Owners And Management**

The following table sets forth the beneficial ownership of our common stock and preferred stock as of April 15, 2016, by the following persons (a) each shareholder known to us to beneficially own more than 5% of the outstanding shares of our common stock, (b) each director or nominee, (c) each executive officer named in the



Summary Compensation Table and (d) all directors and executive officers as a group. A person has beneficial ownership over shares if he or she has or shares voting or investment power over the shares, or the right to acquire that power within 60 days of April 15, 2016.

With respect to our continuing qualification as a real estate investment trust, our Amended and Restated Articles of Incorporation (the “Articles”) contain an ownership limitation, which prohibits both direct and indirect ownership of more than 9.9% of the outstanding shares of our common stock or 9.9% of any series of our preferred stock. Our Articles permit the Board of Directors, in its sole discretion, to exempt a person from this ownership limit if the person provides representations and undertakings that enable the Board to determine that granting the exemption would not result in the Company losing its qualification as a REIT. Under the Internal Revenue Service (IRS) rules, REIT shares owned by certain entities are considered owned proportionately by owners of the entities for REIT qualification purposes. The holder of the Series D convertible preferred stock provided representations and undertakings necessary for the Board to grant such an exemption.

<u>Name of Beneficial Owner</u>	<u>Title of Class</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class (1)</u>
Real Estate Strategies L.P. 2 Church Street Hamilton DO HM CX, Bermuda	Series D convertible preferred stock common stock	3,245,156 (2) 21,543,948 (2)	52% 48.9%
SREP III Flight – Investco, L.P. 150 California St., Suite 850 San Francisco, CA	Series D convertible preferred stock common stock	3,000,000 (3) 18,750,000 (3)	48% 42.6%
He Zhengxu Institute of Math, AMSS, CAS Zhongguancun, Haidian District Beijing 100080, PRC	common stock	462,622 (4)	9.4%
JCP Investment Partnership, L.P. 1177 West Loop South Suite 1650 Houston, TX 77027	common stock	269,805 (5)	5.5%
J. William Blackham	common stock	657,894 (6)	12.2%
John M. Sabin	common stock	11,130	
James H. Friend	common stock	4,255	
Donald J. Landry	common stock	14,156	
Daniel R. Elsztain	common stock	7,680	
Daphne J. Dufresne	common stock	3,000	
Jeff Giller	Series D convertible preferred stock common stock	3,000,000 (7) 18,750,000	48% 42.6%
Mark D. Linehan	common stock	0	
Brendan MacDonald	Series D convertible preferred stock common stock	3,000,000 (8) 18,750,000	48% 42.6%
Jonathan J. Gantt	common stock	0	
Jeffrey W. Dougan	common stock	4,403 (9)	
All directors and executive officers as a group (13 persons)	common stock	19,452,518 (10)	44.2%

- (1) Unless otherwise indicated, beneficial ownership of any named individual does not exceed 1% of the outstanding class of securities. In calculating the indicated percentage, the denominator includes the shares of common stock that could be acquired by the person through the exercise of options or warrants within 60 days of April 5, 2016. The denominator excludes the shares of common stock that would be acquired by any other person upon such exercise.
- (2) Real Estate Strategies L.P. (“RES”), an investment vehicle indirectly controlled by IRSA Inversiones y Representaciones Sociedad Anónima (“IRSA”), an Argentinean-based publicly traded company, acquired 3,245,156 shares of Series D convertible preferred stock from the Company in an exchange on March 16, 2016 for 3,000,000 shares of Series C convertible preferred stock, and accrued and unpaid dividends. Up to 20,282,225 shares of common stock may be issued upon conversion of the Series D convertible preferred stock.

Based on information appearing in Amendment No. 3 to a Schedule 13D filed by RES with the Securities and Exchange Commission on March 23, 2016, RES has shared voting and shared dispositive power over 1,261,723 shares of common stock and the 3,245,156 shares of Series D convertible preferred stock. RES and its affiliates, for purposes of Section 13(d)(3) of the Exchange Act, consists of Eduardo S. Elsztain, and the following entities controlled, either directly or indirectly, by Mr. Elsztain: Consultores Assets Management S.A., Consultores Venture Capital Uruguay S.A., Agroinvestment S.A., Idalgir S.A., Consultores Venture Capital Ltd., Ifis Limited, Inversiones Financieras del Sur S.A., Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria, IRSA, Tyrus S.A., Jiwin S.A., Efanur SA and RES.

RES also holds a convertible promissory note (the “Note”), convertible into 101,159 shares of Series D convertible preferred stock (which are convertible into 632,249 shares of common stock) that are not included in the share totals because the Note is not currently convertible pursuant to a provision the Note which prohibits conversion if RES and its affiliates would hold more than 49% in the aggregate of the voting stock of the Company. RES also hold 3,750,000 warrants, convertible into 3,750,000 shares of common stock that are not included in the share totals, because the warrants are not currently exercisable pursuant to a provision in the warrants which prohibits exercise if RES and its affiliates would hold more than 34% of the voting stock of the Company.

- (3) SREP III Flight-Investco, L.P. (“SREP”), an affiliate of StepStone Group LP, acquired 3,000,000 shares of Series D convertible preferred stock from the Company in a private transaction on March 16, 2016. Up to 18,750,00 shares of common stock may be issued on conversion of the Series D convertible preferred stock.
- (4) Based solely on Schedule 13G filed by the beneficial owner with the SEC on February 2, 2015.
- (5) Based solely on a Schedule 13D appeared filed by JCP Investment Partnership, L.P., a Texas limited partnership on April 20, 2015, and its group members JCP Investment Partners, a Texas limited partnership, JCP Investment Holdings LLC, a Texas limited liability company, JCP Investment Management, LLC, a Texas limited liability company, James C. Pappas, Edward M. Collie and Michael Sutton.
- (6) Includes 430,000 shares of common stock which Mr. Blackham has the right to acquire through the exercise of an employment grant warrant.
- (7) Mr. Giller is a member of StepStone Group Real Estate Holdings LLC, general partner of StepStone Group Real Estate LP, the sole member and investment manager of StepStone REP III (GP), LLC, the general partner of SREP, the record holder of the 3,000,000 shares of Series D convertible preferred stock, which are convertible into 18,750,00 shares of common stock. Mr. Giller may be deemed a participant in the control of the voting, disposition or purchase of these shares and thus may be deemed to share beneficial ownership of these shares. Mr. Giller disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein, and the inclusion of these shares in this table shall not be an admission of beneficial ownership of all of the reported securities for any purpose.

- (8) Mr. MacDonald is a member of StepStone Group Real Estate Holdings LLC, general partner of StepStone Group Real Estate LP, the sole member and investment manager of StepStone REP III (GP), LLC, the general partner of SREP, the record holder of the 3,000,000 shares of Series D convertible preferred stock, which are convertible into 18,750,00 shares of common stock. Mr. MacDonald may be deemed a participant in the control of the voting, disposition or purchase of these shares and thus may be deemed to share beneficial ownership of these shares. Mr. MacDonald disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein, and the inclusion of these shares in this table shall not be an admission of beneficial ownership of all of the reported securities for any purpose.
- (9) Includes 2,083 shares of common stock which Mr. Dougan has the right to acquire through the exercise of options.
- (10) Includes 432,083 shares of common stock which the directors and executive officers have the right to acquire through the exercise of options and warrants and 18,750,000 shares of common stock issuable upon conversion of preferred stock (see footnotes 7 and 8 above).

### **Item 13. Certain Relationships and Related Transactions and Director Independence**

#### *Independence*

The Articles and the Nasdaq Stock Market listing standards each require that a majority of the Board of Directors are independent directors. The articles of incorporation defines an independent director as a person who is not an officer or employee of the Company or an affiliate of (a) any advisor to the Company under an advisory agreement, (b) any lessee of any property of the Company, (c) any subsidiary of the Company, or (d) any partnership which is an affiliate of the Company.

The Nasdaq Stock Market listing standards defines an independent director as a person other than an executive officer or employee of the Company or any other individual having a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons are not considered independent under the listing standards:

- a director who is, or at any time during the past three years was, employed by the Company or by any parent or subsidiary of the Company;
- a director who accepted or who has a family member who accepted any compensation from the Company in excess of \$120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
  - compensation for Board or Board committee service;
  - compensation paid to a family member who is an employee (other than an executive officer) of the Company ; or
  - benefits under a tax-qualified retirement plan, or non-discretionary compensation;
- a director who is a family member of an individual who is, or at any time during the past three years was, employed by the Company as an executive officer;

- a director who is, or has a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:
  - payments arising solely from investments in the Company's securities; or
  - payments under non-discretionary charitable contribution matching programs;
- a director who is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company serve on the compensation committee of such other entity; or
- a director who is, or has a family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

#### *Board of Directors*

The current nine-member Board of Directors is comprised of a majority of independent directors, as defined by the Nasdaq Stock Market listing standards and the Articles. The Board of Directors has determined that the following directors are independent under the Nasdaq Stock Market listing standards and the Articles: Ms. Dufresne and Messrs. Elsztain, Friend, Giller, Landry, Linehan, MacDonald and Sabin.

On March 16, 2016, the Company entered into a series of agreements providing for:

- the issuance and sale of the Series D convertible preferred stock in a private transaction to SREP, an affiliate of StepStone Group LP;
- the cash redemption of all of the outstanding Series A preferred stock and Series B preferred stock; and
- the exchange of all of the outstanding Series C convertible preferred stock for Series D convertible preferred stock.

#### *Related Transactions*

*SREP Stock Purchase Agreement.* On March 16, 2016, the Company and SREP entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") pursuant to which the Company issued and sold 3,000,000 shares of Series D convertible preferred stock to SREP on the same date for an aggregate purchase price of \$30,000,000. The Stock Purchase Agreement required that \$20,147,000 of the purchase price be deposited into an escrow account for purposes of effecting the redemption of the Series A preferred stock and Series B preferred stock and that the remaining amount of the purchase price be delivered to the Company.

*Redemption.* With notice given for redemption to occur on April 15, 2016, and the redemption funds deposited in escrow, all rights of the holders of the Series A preferred stock and Series B preferred stock terminated, except the right to receive the redemption price.

*RES Exchange.* The Company entered into an Agreement (the "Exchange Agreement") dated March 16, 2016 with RES and IRSA pursuant to which all 3,000,000 outstanding shares of Series C convertible preferred stock were exchanged for 3,000,000 shares of Series D convertible preferred stock. Pursuant to the Exchange Agreement, in lieu of payment of accrued and unpaid dividends in the amount of \$4,947,370 on the Series C convertible preferred stock, the Company (a) paid to RES an amount of cash equal to \$1,484,211, (b) issued to RES 245,156 shares of Series D convertible preferred stock (such that RES, IRSA and their affiliates do not beneficially own in excess of 49% of the voting stock of the Company) and (c) issued to RES a promissory note, bearing interest at 6.25% per annum, in the principal amount of \$1,011,599 and convertible into a number of shares of Series D Stock that would have otherwise been issued on account of the remaining accrued and unpaid dividends but for the foregoing 49% limitation (the "Note").

RES at its option may at any time elect to convert the Note, in whole or part, by notice delivered to the Company, into a number of shares of Series D convertible preferred stock, determined by dividing the principal amount of the Note to be converted by \$10.00, provided that, any such conversion shall be reduced such that RES, together with its affiliates, does not beneficially own more than 49% of the voting stock of the Company. Any such conversion reduces the principal amount of the Note proportionally.

*Series D Convertible Preferred Stock.* The Series D convertible preferred stock is convertible, at the option of the holder, at any time into common stock at a conversion price of \$1.60 for each share of common stock, which is equal to the rate of 6.25 shares of common stock for each share of Series D convertible preferred stock. The conversion price is subject to anti-dilution adjustments upon the occurrence of stock splits and stock dividends.

The holders of Series D convertible preferred stock vote their Series D convertible preferred stock as a single class with the holders of the common stock on all matters submitted to such holders for vote or consent. For each such vote or consent, each share of Series D convertible preferred stock entitles the holder to cast one vote for each whole vote (rounded to the nearest whole number) that such holder would be entitled to cast had such holder converted its Series D convertible preferred stock into shares of common stock as of the date immediately prior to the record date for determining the shareholders of the Company eligible to vote on any such matter.

As long as the Series D convertible preferred stock is outstanding, the holders of the shares, which include RES and StepStone, have the right to vote separately as a class to approve certain significant corporate events, including the merger, consolidation, liquidation, or sale of substantially all of the assets of the Company or the sale by the Company of common stock or securities convertible into common stock equal to 20% or more of the outstanding common stock or voting stock.

*RES Warrants.* In February 2012, in connection with the purchase of the Series C convertible preferred stock, the Company issued warrants ("Warrants") to RES to purchase 3,750,000 shares of common stock. The Warrants are exercisable at any time on or before January 31, 2017 if following the exercise RES's ownership of the Company's voting stock does not exceed 34%. The Warrants are exercisable at an exercise price of \$1.92 per share of common stock. The exercise price may be paid in cash, or the holder may also elect to pay the exercise price by having the Company withhold a sufficient number of shares from the exercise with a market value equal to the exercise price.

*RES Investor Rights and Conversion Agreement.* The Company entered into an Investor Rights and Conversion Agreement (the "RES Investor Rights and Conversion Agreement") dated February 1, 2012 with RES and IRSA pursuant to which the Company granted RES and its affiliates and their respective subsidiaries, among other rights, the right to purchase equity shares or securities convertible into equity shares in future Company offerings on a pro rata basis based on their share ownership.

*RES Registration Rights Agreement.* The Company entered into a registration rights agreement (the "RES Registration Rights Agreement") dated February 1, 2012 with RES and IRSA. The Registration Rights Agreement requires the Company to register for resale by the holders the common stock issued upon conversion of the Series C convertible preferred stock and upon exercise of the Warrants, these rights have been carried forward into the Series D convertible stock. The RES Registration Rights Agreement also grants RES the right to participate in certain future underwritten offerings of securities by the Company.

*RES Directors Designation Agreement.* The Company entered into a directors designation agreement (the "RES Directors Designation Agreement") dated February 1, 2012 with RES and IRSA pursuant to which the Company will appoint up to four directors designated by RES and IRSA to the Board of Directors.

RES may appoint the following number of directors if it owns the indicated percentage of voting power:

<u>Voting Power</u>	<u>No. of Directors</u>
34%	4
22% or more but less than 34%	3
14% or more but less than 22%	2
7% or more but less than 14%	1

*StepStone Investor Rights Agreement.* The Company entered into an StepStone Investor Rights Agreement (the “StepStone Investor Rights Agreement”) dated March 16, 2016 with SREP and StepStone Group Real Estate LP (“StepStone”) pursuant to which (a) Messrs. Dinkel, Walters and Whittemore resigned as members of the Board of Directors and (b) the Company appointed three director nominees selected by StepStone to the Board of Directors, Messrs. Giller, MacDonald and Linehan. The Company also agreed to maintain the Board of Directors at no more than nine members.

StepStone may nominate the following number of directors if it beneficially owns the indicated percentage of voting power of the Company: (a) three directors if it owns 22% or more of the outstanding voting power, (b) two directors if it owns 14% or more but less than 22% of the outstanding voting power, and (c) one director if it owns 7% or more but less than 14% of the outstanding voting power.

The StepStone Investor Rights Agreement also requires the Company to register the resale of the common stock issued to StepStone or specified affiliates upon conversion of the Series D convertible preferred stock.

The Company granted StepStone and its affiliates, among other rights, the right to purchase equity shares or securities convertible into equity shares in future Company offerings on a pro rata basis based on their share.

#### **Item 14. Principal Accountant and Service**

The following table presents the fees for professional audit services rendered by KPMG LLP for the audit of the Company’s consolidated financial statements for the fiscal years ended December 31, 2015 and 2014, and fees billed for other services rendered by KPMG during those periods.

<b>Year Ended December 31,</b>	<b>2015</b>	<b>2014</b>
Audit Fees <sup>(1)</sup>	\$421,850	\$582,000
Audit Related Fees	0	0
Tax Fees <sup>(2)</sup>	160,053	135,065
All Other Fees	0	0
<b>Total</b>	<b>\$581,903</b>	<b>\$717,265</b>

- (1) Includes fees billed for professional services rendered by KPMG for the audit of the Company’s fiscal 2015 and 2014 annual financial statements, and review of the Company’s quarterly financial statements during 2015 and 2014.
- (2) Includes fees billed for professional services rendered by KPMG for tax compliance, tax advice, and tax planning.

The Audit Committee has determined that the provision of the non-audit services performed by KPMG during the 2015 and 2014 fiscal years is compatible with maintaining KPMG’s independence from the Company.

Pursuant to the terms of the Company’s Audit Committee Charter, the Audit Committee is responsible for the appointment, compensation and oversight of the work performed by the Company’s independent accountants. The Audit Committee, or a designated member of the Audit Committee, must pre-approve all audit (including audit-related) and non-audit services performed by the independent accountants in order to assure that the provisions of such services do not impair the accountants’ independence. The Audit Committee has delegated interim pre-approval authority to Mr. Sabin, Chairman of the Audit Committee. Any interim pre-approval of permitted non-audit services is required to be reported to the Audit Committee at its next scheduled meeting.

KPMG's principal function is to audit the consolidated financial statements of the Company and its subsidiaries and, in connection with that audit, to review certain related filings with the SEC and to conduct limited reviews of the financial statements included in the Company's quarterly reports.

The Audit Committee has appointed KPMG as the Company's independent registered public accounting firm for fiscal year 2016 and requests that shareholders ratify this appointment.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

#### **Exhibits**

3.1 Amended and Restated Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 16, 2016).

3.2 Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 19, 2014).

10.1 Third Amended and Restated Agreement of Limited Partnership of Supertel Limited Partnership, as amended (incorporated herein by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2010).

10.2 Second Amendment to Third Amended and Restated Agreement of Limited Partnership of Supertel Limited Partnership dated March 2, 2015 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 2, 2015).

10.3 First Amended and Restated Master Lease Agreement dated as of November 26, 2002 between Supertel Limited Partnership, E&P Financing Limited Partnership, TRS Leasing, Inc. and Solomons Beacon Inn Limited Partnership (incorporated herein by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.4 Hotel Management Agreement dated June 19, 2015 by and between TRS Leasing, Inc., TRS Subsidiary, LLC and Kinseth Hotel Corporation (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 19, 2015).

10.5 Hotel Management Agreement dated June 19, 2015 by and between TRS Leasing, Inc., TRS Subsidiary, LLC and Strand Development Company, LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 19, 2015).

10.6 Hotel Management Agreement dated June 19, 2015 by and between TRS Leasing, Inc., TRS Subsidiary, LLC, SPPR TRS Subsidiary, LLC, BMI Alexandria TRS Subsidiary, LLC and Hospitality Management Advisors, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 19, 2015).

10.7 Hotel Management Agreement dated June 19, 2015 by and between SPPR-Dowell TRS Subsidiary, LLC and Cherry Cove Hospitality Management, LLC (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 19, 2015).

10.8 Hotel Management Agreement dated October 1, 2015 between TRS San Spring, LLC and Peachtree Hospitality Management, LLC (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated October 1, 2015).

10.9 Hotel Management Agreement dated October 1, 2015 between TRS Atl Indy, LLC and Peachtree Hospitality Management, LLC (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated October 1, 2015).

10.10 Hotel Management Agreement dated October 1, 2015 between TRS Jax Court, LLC and Peachtree Hospitality Management, LLC (incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated October 1, 2015).

10.11 Amended and Restated Loan Agreement dated December 3, 2008 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2013).

10.12 First Amendment to Amended and Restated Loan Agreement dated February 4, 2009 between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2009).

10.13 Second Amendment to Amended and Restated Loan Agreement dated March 29, 2010 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2010).

10.14 Third Amendment to Amended and Restated Loan Agreement dated March 15, 2011 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2011).

10.15 Fourth Amendment to Amended and Restated Loan Agreement dated December 9, 2011 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 9, 2011).

10.16 Fifth Amendment to Amended and Restated Loan Agreement dated February 21, 2012 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 21, 2012).

10.17 Sixth Amendment to Amended and Restated Loan Agreement dated effective as of December 31, 2012 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated January 17, 2013).

10.18 Seventh Amendment to Amended and Restated Loan Agreement dated March 26, 2013 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 26, 2013).

10.19 Eighth Amendment to Amended and Restated Loan Agreement dated July 31, 2013 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2013).

10.20 Ninth Amendment to Amended and Restated Loan Agreement dated June 30, 2014 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 30, 2014).

10.21 Tenth Amendment and Written Consent to Amended and Restated Loan Agreement dated August 1, 2014 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 1, 2014).



10.22 Eleventh Amendment to Amended and Restated Loan Agreement dated August 1, 2014 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 1, 2014).

10.23 Twelfth Amendment to Amended and Restated Loan Agreement dated November 20, 2014 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 20, 2014).

10.24 Thirteenth Amendment to Amended and Restated Loan Agreement dated June 5, 2015 by and between the Company and Great Western Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated June 5, 2015).

10.25 Promissory Note, Loan Agreement and form of Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated January 5, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.26 Amendment No. 1 to the Promissory Note dated January 5, 2007 by Supertel Limited Partnership to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2013).

10.27 Global Amendment and Consent dated March 16, 2009 between Supertel Limited Partnership, SPPR-South Bend, LLC and General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2009).

10.28 Unconditional Guaranties of Payment and Performance dated March 16, 2009, by the Company and Supertel Hospitality REIT Trust to and for the benefit of General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2009).

10.29 Loan Modification Agreements dated as of September 30, 2009 by and between General Electric Capital Corporation, the Company, Supertel Limited Partnership, Supertel Hospitality REIT Trust and SPPR-South Bend, LLC, (incorporated herein by reference to Exhibits 10.1 and 10.2 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2009).

10.30 Covenant Waiver dated as of November 9, 2009 by General Electric Capital Corporation to the Company, Supertel Limited Partnership, Supertel Hospitality REIT Trust and SPPR-South Bend, LLC, (incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2009).

10.31 Loan Modification Agreement dated as of March 25, 2010 by and between General Electric Capital Corporation, Supertel Limited Partnership, SPPR-South Bend, LLC, Supertel Hospitality REIT Trust and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended March 31, 2010).

10.32 Loan Modification Agreement dated as of March 29, 2012 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Capital Commercial of Utah, LLC and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 29, 2012).

10.33 Loan Waiver and Collateral Agreement dated as of November 14, 2012 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Capital

Commercial of Utah, LLC and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.34 Loan Modification Agreement dated as of August 13, 2013 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended June 30, 2013).

10.35 Loan Modification Agreement dated as of November 13, 2013 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2013).

10.36 Loan Modification Agreement dated as of March 14, 2014 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended June 30, 2014).

10.37 Loan Modification Agreement dated as of October 13, 2014 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2014).

10.38 Loan Modification Agreement dated as of December 30, 2014 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 23, 2014).

10.39 Loan Modification Agreement dated as of February 17, 2015 by and between Supertel Limited Partnership, SPPR-South Bend, LLC, the Company and Supertel Hospitality REIT Trust and GE Franchise Finance Commercial LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 17, 2015).

10.40 Loan Agreement, dated as of November 2, 2012, between Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC and Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 2, 2012).

10.41 First Amendment to Loan Agreement, dated as of January 3, 2013, between Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC and Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.42 Guaranty of Recourse Obligations of Borrower, dated as of November 2, 2012, by the Company in favor of Morgan Stanley Mortgage Capital Holdings LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 2, 2012).

10.43 Cash Management Agreement, dated as of November 2, 2012, among Morgan Stanley Mortgage Capital Holdings LLC, Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC, Hospitality Management Advisors, Inc., Kinseth Hotel Corporation and Strandco, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated November 2, 2012).

10.44 First Amendment to Cash Management Agreement, dated as of November 5, 2012, among Morgan Stanley Mortgage Capital Holdings LLC, Solomons Beacon Inn Limited Partnership, TRS Subsidiary, LLC, Hospitality

Management Advisors, Inc., Kinseth Hotel Corporation and Strandco, Inc. (incorporated herein by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2012).

10.45 Loan Agreement dated October 2, 2015 between GE Capital Franchise Finance Corporation and CDOR Atl Indy, LLC and TRS Atl Indy, LLC (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.46 Loan Agreement dated October 2, 2015 between GE Capital Franchise Finance Corporation and CDOR Jax Court, LLC and TRS Jax Court, LLC (incorporated herein by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.47 Term Loan Note dated October 2, 2015 by CDOR Atl Indy, LLC and TRS Atl Indy, LLC to the order of GE Capital Franchise Finance Corporation (incorporated herein by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.48 Term Loan Note dated October 2, 2015 by CDOR Jax Court, LLC and TRS Jax Court, LLC to the order of GE Capital Franchise Finance Corporation (incorporated herein by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.49 Guaranty dated October 2, 2015 by the Company for the benefit of GE Capital Franchise Finance Corporation (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.50 Guaranty dated October 2, 2015 by the Company for the benefit of GE Capital Franchise Finance Corporation (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.51 Assignment and Assumption of Deed of Trust and Other Loan Documents and Modification Agreement dated October 1, 2015 by and among PHG San Antonio, LLC, Jatin Desai, Mitul Patel, and Gregory M. Friedman, CDOR San Spring, LLC, TRS San Spring, LLC and the Company, and LMREC 2015-CRE1, Inc. (incorporated herein by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.52 Promissory Note (Springhill Suites) dated April 21, 2014 by PHG San Antonio, LLC to the order of LMREC III Holdings III, Inc. (incorporated herein by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.53 Deed of Trust, Security Agreement and Financing Statement by PHG San Antonio, LLC to Cyrus N. Ansari, Esq. for the benefit of LMREC III Holdings III, Inc. (incorporated herein by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.54 Indemnity and Guarantee Agreement (Springhill Suites) dated October 1, 2015 by the Company in favor of LMREC 2015-CRE 1, Inc. (incorporated herein by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.55 Lockbox and Security Agreement (Springhill Suites) dated October 1, 2015 by CDOR San Spring, LLC and TRS San Spring, LLC in favor of LMREC 2015-CRE 1, Inc. (incorporated herein by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-34087) for the quarter ended September 30, 2015).

10.56 Purchase Agreement, dated November 16, 2011, by and among the Company, Supertel Limited Partnership and Real Estate Strategies L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A (Commission file number 001-34087) dated November 16, 2011).

10.57 Warrants issued to Real Estate Strategies L.P. dated February 1, 2012 and February 15, 2012 (incorporated herein by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2011).

10.58 Investor Rights and Conversion Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated January 30, 2012).

10.59 Registration Rights Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated January 30, 2012).

10.60 Directors Designation Agreement, dated February 1, 2012, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anónima (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated January 30, 2012).

10.61 Agreement, dated August 9, 2013, by and among the Company, Real Estate Strategies L.P. and IRSA Inversiones y Representaciones Sociedad Anonima (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 9, 2013)

10.62 Agreement, dated July 23, 2015, between Real Estate Strategies L.P., IRSA Inversiones y Representaciones Sociedad Anonima and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 23, 2015).

10.63 The Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2011).

10.64 Amendment to the Company's 2006 Stock Plan dated May 28, 2009 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated May 28, 2009).

10.65 Amendment to the Company's 2006 Stock Plan dated May 22, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated May 22, 2012).

10.66 Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2011).

10.67 Employment Agreement of Kelly Walters, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 1, 2012).

10.68 Employment Agreement of Corrine L. Scarpello, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 1, 2012).

10.69 Employment Agreement of David L. Walter, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 1, 2012).

10.70 Employment Agreement of Steven C. Gilbert, dated February 1, 2012 (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated February 1, 2012).

- 10.71 Jeffrey W. Dougan Employment Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 9, 2013).
- 10.72 Jeffrey W. Dougan Restricted Stock Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 9, 2013).
- 10.73 Jeffrey W. Dougan Stock Option Agreement dated July 15, 2013 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 9, 2013).
- 10.74 Kelly Walters Letter Agreement dated September 10, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated September 9, 2014).
- 10.75 Kelly Walters Letter Agreement dated December 19, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 19, 2014).
- 10.76 Corrine L. Scarpello Letter Agreement dated December 22, 2014 (incorporated herein by reference to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 22, 2014).
- 10.77 Kelly Walters Letter Agreement dated January 29, 2015 (incorporated herein by reference to Exhibit 10.69 to the Company's Annual Report on Form 10-K (Commission file number 001-34087) for the year ended December 31, 2014).
- 10.78 Employment Agreement between J. William Blackham and the Company dated March 2, 2015 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 2, 2015).
- 10.79 Common Stock Purchase Warrant dated March 2, 2015 between the Company and J. William Blackham (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 2, 2015).
- 10.80 Letter dated March 25, 2015 with Corrine L. Scarpello (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 25, 2015).
- 10.81 Letter dated July 9, 2015 with Corrine L. Scarpello (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 9, 2015).
- 10.82 Director and Named Executive Officers Compensation is incorporated herein by reference to the sections entitled "Compensation Discussion and Analysis", "Compensation Committee Report", "Summary Compensation Table", "Grants of Plan-Based Awards for Fiscal Year 2015", "Outstanding Equity Awards at Fiscal Year-End", and "Director Compensation" in the Company's Proxy Statement for the Annual Meeting of Stockholders for 2016.
- 10.83 Purchase and Sale Agreement dated July 14, 2015 between Supertel Limited Partnership and PHG College Park, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 14, 2015).
- 10.84 Purchase and Sale Agreement dated July 14, 2015 between Supertel Limited Partnership and PHG Jax Flagler, LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 14, 2015).
- 10.85 Purchase and Sale Agreement dated July 14, 2015 between Supertel Limited Partnership and PHG San Antonio, LLC (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated July 14, 2015).

10.86 Stock Purchase Agreement, dated as of March 16, 2016, between SREP III Flight-Investco, L.P. and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 16, 2016).

10.87 Investor Rights Agreement, dated as of March 16, 2016, by and among SREP III Flight-Investco, L.P., StepStone Group Real Estate LP and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 16, 2016).

10.88 Agreement, dated as of March 16, 2016, by and among Real Estate Strategies L.P., IRSA Inversiones y Representaciones Sociedad Anónima and the Company (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 16, 2016).

21.0\* Subsidiaries.

23.1\* Consent of KPMG LLP.

31.1\*\* Section 302 Certification of Chief Executive Officer.

31.2\*\* Section 302 Certification of Chief Financial Officer.

32.1\*\* Section 906 Certifications.

101.1\* The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Equity, (iv) the Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

Pursuant to Item 601 (b)(4) of Regulation S-K, certain instruments with respect to the Company's long-term debt are not filed with this Form 10-K. The Company will furnish a copy of any such long-term debt agreement to the Securities and Exchange Commission upon request.

Management contracts and compensatory plans are set forth as Exhibits 10.63 through 10.82.

\* Previously Filed.

\*\* Filed Herewith

## 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.

April 28, 2016

### Condor Hospitality Trust, Inc.

/s/ J. William Blackham  
J. William Blackham  
Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ J. William Blackham</u> J. William Blackham	Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	April 28, 2016
<u>/s/ Jonathan J. Gantt</u> Jonathan J. Gantt	Chief Financial Officer <i>(Principal Financial Officer)</i>	April 28, 2016
<u>/s/ Arinn A. Cavey</u> Arinn A. Cavey	Chief Accounting Officer <i>(Principal Accounting Officer)</i>	April 28, 2016

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

**J. William Blackham**

President, Chief Executive Officer,  
Condor Hospitality Trust, Inc.

**Daphne Dufresne**<sup>3</sup>

Managing Director,  
RLJ Equity Partners

**Daniel Elsztain**<sup>2,3,4</sup>

Chief Real Estate Business Officer,  
IRSA

**James Friend**<sup>CB,1</sup>

Chairman of the Board, Condor;  
President and Chief Executive Officer,  
Friend Development Group

**Jeff Giller**

Partner,  
StepStone Group

**Donald Landry**<sup>3\*,4\*</sup>

President and Owner,  
Top Ten Hospitality Advisors

**Mark Linehan**<sup>1</sup>

President and Chief Executive Officer,  
Wynmark

**Brendan MacDonald**<sup>2,3,4</sup>

Partner,  
StepStone Group

**John Sabin**<sup>1\*,2\*</sup>

Chief Financial Officer,  
Revolution LLC, and  
Case Foundation

**Committee Membership**

- 1 Audit Committee
- 2 Compensation Committee
- 3 Investment Committee
- 4 Nominating Committee

\*Denotes Chairman of Committee  
CB Chairman of the Board

### EXECUTIVE OFFICERS

**J. William Blackham**

President, Chief Executive Officer

**Jonathan Gantt**

Senior Vice President,  
Chief Financial Officer

**Jeffrey Dougan**

Senior Vice President,  
Chief Operating Officer

**Arinn Cavey**

Chief Accounting Officer

**Lauren Green**

Corporate Counsel, Secretary

### CORPORATE HEADQUARTERS

4800 Montgomery Lane  
Suite 220  
Bethesda, MD 20814  
Phone: (402) 371-2520  
Website: [www.condorhospitality.com](http://www.condorhospitality.com)

Corporate Offices:  
11422 Miracle Hills Drive  
Suite 501  
Omaha, NE 68154  
Phone: (402) 371-2520

1800 West Pasewalk Avenue  
Suite 200  
Norfolk, NE 68701  
Phone: (402) 371-2520  
Fax: (402) 371-4229

### ANNUAL MEETING

The annual meeting of shareholders will be held on Wednesday, June 15, 2016, at 4:00 p.m. Eastern Time at the DoubleTree by Hilton Hotel Bethesda—Washington DC, located at 8120 Wisconsin Avenue, Bethesda, Maryland 20814.

### STOCK EXCHANGE LISTING

Condor Hospitality Trust, Inc. trades on the NASDAQ Global Market System under the symbol "CDOR".

### TRANSFER AGENT

American Stock Transfer and Trust Company, LLC  
6201 15th Avenue  
Brooklyn, NY 11219  
Phone: (800) 937-5449  
[www.amstock.com](http://www.amstock.com)

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
1212 N 96th Street  
Suite 300  
Omaha, NE 68114

### INVESTOR RELATIONS CONTACT

Jonathan Gantt  
Chief Financial Officer  
Condor Hospitality Trust, Inc.  
4800 Montgomery Lane  
Suite 220  
Bethesda, MD 20814  
Phone: (402) 371-2520  
Email: [investors@trustcondor.com](mailto:investors@trustcondor.com)

### FORM 10-K

Additional copies of the Company's 2015 Annual Report on Form 10-K, as filed with the SEC, is available on the Company's website or in print by contacting Investor Relations: 4800 Montgomery Lane Suite 220 Bethesda, MD 20814 Phone: (402) 371-2520 Email: [investors@trustcondor.com](mailto:investors@trustcondor.com)



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Bethesda, MD 20814  
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