

Residence
Inn
Marriott

3201

2018 ANNUAL REPORT



CONDOR

HOSPITALITY TRUST



TO OUR SHAREHOLDERS:

Condor was positioned at the outset of 2018 to acquire additional hotels when deemed attractive, and, to intensively asset manage our hotel portfolio in order to maximize results in an economic environment that had both challenges and an unpredicted temporary pause in hotel demand that was the result of a number of confluent factors. During 2018, we closed on the acquisition of two additional high-quality select-service hotels: (1) a Home2 Suites by Hilton less than one year old located in the Charleston, South Carolina metropolitan area and (2) a one-year-old TownePlace Suites by Marriott located in the Austin, Texas metropolitan area, both in expanding economic regions that continue to grow at levels above national averages. Adding these hotels to our new investment platform portfolio brought the total to fifteen hotels comprising 1,908 rooms with an average age of less than five years since construction completion, or extensive renovation, such as the case with our Atlanta Aloft, essentially a complete internal reconstruction to an existing structure.

During 2018, we closed on the sale of four of the five legacy hotels that remained when the year began generating approximately \$20.4 million in gross sales proceeds. Additionally, subsequent to year end, we closed on the sale of the last remaining legacy hotel generating approximately \$4.3 million in gross sales proceeds and ending a process that began in 2015 with fifty-five legacy hotels being sold, which generated approximately \$170 million in gross sales proceeds. This initiative was part of our rebranding of the predecessor company as we moved forward with the implementation of the Company's new investment strategy. The completion of this transition has taken a company with fifty-six legacy hotels generating \$57 million in revenues in 2014 yielding only 25% operating margins to a portfolio of fifteen hotels that in 2018 would generate on a run-rate basis over \$73 million in revenues (Atlanta Aloft at 100%) and yield approximately 38% in operating margins.¹

Our new investment platform hotel acquisitions, once again in 2018, outperformed various industry, competitive set, and peer group measures. Same-store REVPAR growth in 2018 was 2.6% for the full year, which compares favorably to the Smith Travel Research industry estimate of 1.5% for the upscale sector, and 1.4% for the upper midscale sector, the sector classifications for our hotels. Our fifteen new investment platform hotels portfolio achieved 4.0% REVPAR growth on a non-same-store basis in 2018 comparing favorably to the aggregate 3.3% REVPAR growth of the competitive sets where the hotels are located. Additionally, when measured against the four publicly-traded select-service hotel REIT's representing our comparable peer group,² our 2.6% same-store REVPAR growth compares favorably to the -0.1% average REVPAR growth in 2018. Equally as impressive in terms of performance is the comparison in the change in operating margins in 2018 where the Condor portfolio had same-store margin expansion of 20 basis points to 37.5% compared to the average of the publicly

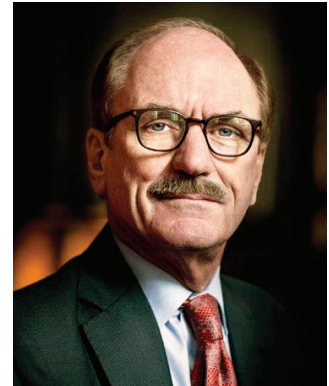
traded select service hotel REIT peer group experiencing margins reduction of 60 basis points to 36.5% operating margins for the full year.

Condor achieved \$4.8M in Net Earnings and \$21.9 million in Adjusted EBITDAre in 2018, which compared to a Net Loss of \$9.4M and Adjusted EBITDAre of \$16.2 million in 2017. The contribution within EBITDA from the hotel portfolio was \$27.6 million; however, when eliminating the legacy hotel contribution, including the Solomons Hilton Garden Inn, and viewing the fourteen hotels we have acquired since the end of 2015, on a run rate basis for 2018 the hotel EBITDA generated would have been \$26.4 million. This represents a 9.5% unleveraged yield on the approximately \$277 million acquisition price, a very attractive return and an additional measure of impressive performance.

We recently declared our dividend of 19.5 cents per share payable April 2, 2019. This represents the 12th consecutive common stock dividend since we reinstated the payment of common stock dividends effective July 2016. Our AFFO payout ratio is 76% comparing favorably to a range of 75% to 83% in our publicly traded select service hotel REIT peer group. We also recently announced that Condor was embarking on a process to evaluate strategic alternatives in order to identify the best strategy for shareholder value maximization. While our small size and low stock trading volume makes this a timely and important process to undertake, it is the role of a Board to constantly review options to maximize shareholder value, so this is not something unique to Condor. At such time as there are changes or something new evolves from this process, we will make appropriate announcements.

Once again, I would like to thank the Condor team, our Board, the management company alliance partners, advisors, lenders, hospitality brokers, and consultants for their contributions to another successful year.

J. William Blackham
President & CEO



J. William Blackham
President and Chief Executive Officer

¹Please see the Regulation G reconciliations at the end of this Annual Report with respect to operating margins in 2014 and 2018 and Hotel EBITDA earned on Condor's Fourteen-Hotel Acquisition Portfolio; please see page 35-36 of the attached 10-K for a reconciliation of adjusted EBITDAre in 2018 and 2017.

²Our select-service public primary peers referred to above APLE, CLDT, INN, and RLJ.



CONDOR HOSPITALITY TRUST

**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, 2018

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)

4800 Montgomery Lane Ste. 220, Bethesda, MD

(Address of principal executive offices)

52-1889548

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

20814

(Zip Code)

(301) 861-3305

(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, \$.01 par value per share | NYSE American |

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 every Interactive Data File required to be submitted 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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer []
Non-accelerated filer [X]

Accelerated filer []
Smaller reporting company [X]
Emerging growth company []

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

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, 2018 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$56.0 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 6, 2019, there were 11,908,031 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the Registrant's 2019 Annual Meeting of Stockholders to be filed within 120 days of the fiscal year ended December 31, 2018, are incorporated into Part III.

TABLE OF CONTENTS

| <u>Item No.</u> | | Form 10-K Report <u>Page</u> |
|-----------------|---|------------------------------------|
| PART I | | |
| 1 | <u>Business</u> | 2 |
| 1A. | <u>Risk Factors</u> | 8 |
| 1B. | <u>Unresolved Staff Comments</u> | 23 |
| 2 | <u>Properties</u> | 23 |
| 3 | <u>Legal Proceedings</u> | 24 |
| 4 | <u>Mine Safety Disclosures</u> | 24 |
| PART II | | |
| 5 | <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 24 |
| 6 | <u>Selected Financial Data</u> | 27 |
| 7 | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 28 |
| 7A. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 41 |
| 8 | <u>Financial Statements and Supplementary Data</u> | 43 |
| 9 | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 87 |
| 9A. | <u>Controls and Procedures</u> | 87 |
| 9B. | <u>Other Information</u> | 87 |
| PART III | | |
| 10 | <u>Directors, Executive Officers and Corporate Governance</u> | 88 |
| 11 | <u>Executive Compensation</u> | 88 |
| 12 | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 88 |
| 13 | <u>Certain Relationships and Related Transactions, and Director Independence</u> | 89 |
| 14 | <u>Principal Accountant Fees and Services</u> | 89 |
| PART IV | | |
| 15 | <u>Exhibits and Financial Statement Schedules</u> | 89 |

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

Overview

Condor Hospitality Trust, Inc. was incorporated in Virginia on August 23, 1994 and was reincorporated in Maryland on November 19, 2014. Our common stock began trading on October 30, 1996 and today trades under the symbol "CDOR" on the NYSE American stock exchange.

The Company 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, 2018, the Company owned 16 hotels, representing 1,967 rooms, in eight states, including one hotel owned through an 80% interest in an unconsolidated joint venture (the "Atlanta JV").

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotel properties are owned by our operating partnership, Condor Hospitality Limited Partnership and its subsidiaries (the "operating partnership"), for which we serve as general partner. As of December 31, 2018, we owned an approximate 99.5% ownership interest in the operating partnership. In the future, the operating partnership 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, the operating partnership and its 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. Our independent management companies are not affiliated with us or our management team. The operating partnership, the TRS, and their respective subsidiaries are consolidated into the Company’s financial statements.

Our significant events for 2018 include:

- On January 18, 2018, the Company acquired the TownPlace Suites Austin (Texas) for \$19.75 million.
- On February 21, 2018, the Company acquired the Home2 Suites Summerville (South Carolina) for \$16.325 million.
- On various dates throughout the year, the Company sold four legacy hotels for total gross proceeds of \$20.35 million and primarily used the net proceeds to reduce outstanding indebtedness on the Company’s \$150.0 million secured revolving credit facility (the “credit facility”).

On September 27, 2018, our board announced that it had initiated a process to evaluate the full range of potential strategic alternatives, which includes but is not limited to, mergers, acquisitions, business combinations, joint ventures, public and private capital raises, recapitalization, and sale transaction options. This process may not result in a transaction or any other action at all. No formalized timetable has been established for the completion of the strategic review.

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 strive to 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 work with the following independent businesses, who we collectively refer to as Business Partners, in the execution of our mission:

- Franchise Partners
- Hotel Management Company 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 ahead of 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 to obtain attractive returns to our shareholders.

Hotels purchased in and since 2012 are referred to throughout as “new investment platform” properties while properties owned prior to 2012 are referred to as “legacy” properties.

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 100 Metropolitan Statistical Areas (“MSAs”), with a focus on the top 21 – 60 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 an attractive sub- 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, and Hyatt and operated by third-party management companies.

In 2018, we acquired two assets that meet our investment criteria, the TownePlace Suites Austin (Texas) and Home2 Suites Charleston-Summerville (South Carolina).

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;
- are located within the top 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;
- are located within markets that have favorable economic, job growth, and demographic factors;
- have illustrated an ability to generate stabilized and dependable revenue and net operating income;
- were constructed less than ten years prior to our acquisition or have been recently significantly renovated to current brand standards, and have significant time (generally ten or more years) remaining on the existing franchise license;
- have some value-added growth potential through operating efficiencies, institutional asset management, repositioning, renovations, or rebranding;
- can be acquired at a discount to replacement cost; and/or
- can be acquired in off-market transactions.

Select-service hotels typically generate most of their revenue from room rentals, have limited food and beverage outlets, contain less meeting space, and require fewer employees than traditional full-service hotels. We believe premium-branded upper-midscale and upscale select-service hotels have the potential to generate attractive risk-adjusted returns relative to other types of hotels due to their ability to achieve Revenue per Available Room (“RevPAR”) levels at or close to those achieved by traditional full-service hotels while achieving higher profit margins due to their more efficient operating model and less volatile cash flows.

Disposition Strategy

Currently we are nearing completion of a ten year process of transitioning our portfolio from economy hotels to high-quality select-service, limited-service, extended stay, and compact full service 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. Since January 1, 2009 through the date of this document, we have sold 122 hotels, of which 54 have been sold since January 1, 2015. The value unlocked from asset sales has been 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 a manner we believe will maximize returns for our shareholders. In 2019, we plan to complete the disposition of the last legacy asset that does not fit the new strategic vision of our portfolio. The last remaining legacy hotel is considered held for sale at December 31, 2018, and is currently under contract to be sold.

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 work toward this goal 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-term 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 will be 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 seek 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 equity capital raises and debt financings that have staggered maturities. From time to time, when purchasing hotel properties, we may issue limited partnership interests in our operating partnership to third parties as full or partial consideration to sellers. Currently, our debt includes a revolving line of credit secured by certain hotels and mortgages secured by our hotel properties. In the future we plan on using the revolving credit facility, term loans, equity issuances, and mortgage debt financings to fund future acquisitions as well as for property redevelopments, return on investment initiatives, and working capital requirements.

Since we are structured as an UPREIT, we may seek to issue limited partnership interest of our operating partnership for raising capital, or when acquiring hotel assets as full or partial consideration to sellers who may desire to take advantage of tax deferral on the sale of a hotel or participate in the income, and potential value appreciation, of our common stock.

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 who we believe are the leading

franchisors of the strongest brands in the segments we target, including Hilton, Marriott, IHG, and Hyatt. 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 16 hotels owned at December 31, 2018, including the hotel owned through the Atlanta JV, operate under the following national and independent brands:

| Franchise Brand | Number of Hotels | Number of Rooms |
|---|-------------------------|------------------------|
| <u>New Investment Platform Properties:</u> | | |
| Aloft (1) | 2 | 410 |
| Courtyard by Marriott (1) | 1 | 120 |
| Fairfield Inn & Suites (1) | 1 | 124 |
| Hampton Inn & Suites (2) | 1 | 130 |
| Hilton Garden Inn (2) | 1 | 100 |
| Home2 Suites (2) | 5 | 524 |
| Hotel Indigo (3) | 1 | 142 |
| Residence Inn (1) | 1 | 120 |
| SpringHill Suites (1) | 1 | 116 |
| TownePlace Suites (1) | 1 | 122 |
| <u>Legacy Properties:</u> | | |
| Quality Inn (4) | 1 | 59 |
| Total | 16 | 1,967 |

- (1) Aloft®, Courtyard by Marriott®, Fairfield Inn & Suites®, Residence Inn®, Springhill Suites®, and TownePlace Suites® are registered trademarks of Marriott International
- (2) Hampton Inn®, Hilton Garden Inn®, and Home2 Suites® are registered trademarks of Hilton Hotels Corporation
- (3) Hotel Indigo® is a registered trademark of InterContinental Hotels Group
- (4) Quality Inn® is a registered trademark of Choice Hotels International, Inc.

The franchisor of two of our hotels advised us in February 2019 that both of the hotels has dropped below the required level for guest satisfaction surveys, and that if the hotel does not achieve compliance, it reserves the right to elect to terminate the relevant franchise agreement. The Company is actively addressing the matter relating to the surveys and has plans in place which it believes will resolve these issues.

Hotel Management Company Partners

As a REIT, we are not permitted to directly operate any of our hotels. We partner closely with some of who we believe are 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 16 hotels owned at December 31, 2018, including the hotel owned through the Atlanta JV, are operated by the following third-party management companies:

| Management Company | Number of Hotels | Number of Rooms |
|---|-----------------------------|----------------------------|
| Peachtree Hospitality Management, LLC | 4 | 508 |
| Vista Host, Inc. | 4 | 431 |
| Aimbridge Hospitality | 3 | 366 |
| Cherry Cove Hospitality Management, LLC | 2 | 159 |
| Boast Hotel Management Company | 1 | 254 |
| InnVentures | 1 | 93 |
| Presidian Hotels | 1 | 156 |
| Total | <u>16</u> | <u>1,967</u> |

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 our new investment platform hotels, because of their locations and chain scale, are 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, 2018, the Company had 14 employees. The staff at our hotels are employed by our third-party hotel managers.

Available Information

Our executive offices are located at 4800 Montgomery Lane, Suite 220, Bethesda, Maryland 20814, our telephone number is (301) 861-3305, and we maintain an Internet website located at 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., 4800 Montgomery Lane, Suite 220, Bethesda, MD 20814, Attn: Corporate Secretary.

Item 1A. Risk Factors

The following discussion concerns the risks associated with our business that should be reviewed and considered carefully. Our business faces many risks and the risks described below may not be the only risks we face. Other risks and uncertainties not presently known to us may also materially and adversely affect our business, the value of our shares, and our ability to pay dividends to our shareholders. Additionally, the risks detailed below are interrelated and should be considered as a whole. In connection with the forward-looking statements that appear in this Annual Report on Form 10-K, you should carefully review the section entitled “Forward-Looking Statements.”

For presentation purposes only, we categorize the risk factors into four broad categories:

- **Risk Related to Our Business & Operations**
- **Risks Related to the Hotel Industry**
- **Risks Related to the Real Estate Industry**
- **Risks Related to Our Structure & Organization**

Risks Related to Our Business & Operations

On September 27, 2018, we announced that our Board had initiated a process to evaluate strategic alternatives; this process may not result in a transaction or other action at all.

On September 27, 2018, our board announced that it had initiated a process to evaluate the full range of potential strategic alternatives, which includes but is not limited to, mergers, acquisitions, business combinations, joint ventures, public and private capital raises, recapitalization, and sale transaction options. This strategic review process, including the announcement thereof, could expose us and our operations to risks and uncertainties, including the disruption to our business resulting in declines in our operating results, the incurrence of significant expenses associated with the retention of legal, financial and other advisors as a result of the review of strategic alternatives, the potential negative impact on our management companies’ ability to attract, retain and motivate hotel and key employees, and exposure to potential litigation in connection with this process and effecting any strategic alternative.

If a strategic alternative is identified, we may be affected by factors related to the feasibility and timing of consummating a transaction, including our ability to obtain required third-party consents and any adverse regulatory developments or determinations or adverse changes in, or interpretations of, the U.S. or foreign tax and other laws, rules or regulations that could materially impact, delay or prevent completion of any transaction or other action.

Speculation regarding any developments related to the review of strategic alternatives and perceived uncertainties related to the future of our company could cause our stock price to fluctuate significantly. There can be no assurances that the exploration of strategic alternatives will result in any transaction. We do not intend to discuss or disclose developments with respect to the process unless and until we otherwise determined that further disclosure is appropriate or required by regulation or law. No formalized timetable has been established for the completion of the strategic review.

Failure of the economy to improve or remain stable may adversely affect our ability to execute our business strategies, which in turn would adversely affect our ability to make distributions to our stockholders.

Our ability to execute our business strategy is affected by economic conditions, and we cannot assure you that economic fundamentals will improve or remain stable. The housing market collapse and world events outside our control, such as terrorism, have adversely affected the economy in the past. If events like these reoccur, they may adversely affect the economy in the future. An economic recession could have a dramatic impact on our financial results. In the event conditions in the economy do not improve or remain stable, our ability to execute our business strategies will be adversely effected, which in turn would adversely affect our ability to make distributions to our stockholders.

The departure of any of our key personnel who have significant experience and relationships in the lodging industry, particularly our Chief Executive Officer, J. William Blackham, could materially and adversely affect us.

We depend on the experience and relationships of our executive officers, especially J. William Blackham, our Chief Executive Officer and a member of our board of directors, to manage our day-to-day operations and strategic business direction. Mr. Blackham has extensive experience in the lodging industry, during which time he has established an extensive network of lodging industry contacts and relationships, including relationships with national hotel brands, hotel owners, financiers, operators, commercial real estate brokers, developers and management companies. We can provide no assurances that Mr. Blackham, or any of our key personnel, will continue their employment with us. The loss of the services of any of the members of our management team, or any difficulty attracting and retaining other talented and experienced personnel, could adversely affect our ability to source potential investment opportunities, our relationship with national hotel brands and other industry participants and the execution of our business strategy. 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 and there can be no assurance that we would be able to hire, train, retain, or motivate such individuals. Further, such a loss could be negatively perceived by investors, which could reduce the market value of our common shares.

If we are unable to successfully manage our growth, our operating results and financial condition could be adversely affected.

Our ability to implement our business strategy and grow our business depends upon our senior executive officers' business contacts and their ability to successfully hire, train, supervise and manage additional personnel. We may not be able to hire and train sufficient personnel or develop management, information and operating systems suitable for our expected growth. If we are unable to manage any future growth effectively, our operating results and financial condition could be adversely affected.

Our future growth is dependent on obtaining new financing and if we cannot secure financing in the future, our growth will be limited.

The success of our growth strategy will depend on access to capital through use of excess cash flow, borrowings or subsequent issuances of common shares or other securities. Acquisitions of new hotel properties will require significant additional capital and existing hotels will require periodic capital improvement initiatives to remain competitive. We may not be able to fund acquisitions or capital improvements solely from cash provided from our operating activities because we must distribute at least 90% of our taxable income (determined before the deduction for dividends paid and excluding any net capital gains) each year to satisfy the requirements for qualification as a REIT for federal income tax purposes. As a result, our ability to fund capital expenditures for acquisitions through retained earnings is very limited. Our ability to grow through acquisitions of hotels will be limited if we cannot obtain satisfactory debt or equity financing, which will depend on capital markets conditions. 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.

Our lack of industry, brand, and/or geographic diversification could have an adverse effect on results.

Historically, we have exclusively bought ownership interest in hotels in the United States. As a result, we are subject to the risks inherent in investing in a single industry. A downturn in the U.S. hotel industry may have a pronounced effect on the amount of funds available to us for distribution or on the value of Company's assets. Our business is subject to the risks that are common to the hotel industry and that are out of our control. Additionally, we may face risks associated with any geographic concentration or franchisor concentration.

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 due to the termination of an existing management agreement, we may experience decreased occupancy and other significant disruptions at our hotels and in our operations generally.

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, most of whom have greater financial resources than we do. 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.

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.

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

Since January 1, 2015 through the date of this document, we have sold 54 hotels and our business strategy includes the disposition of assets. 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. There cannot be any assurances that we will sell any hotels, including the hotels currently under contract for sale on the contracted terms or at all as the closing of the sale of such hotels is subject to the satisfaction of customary closing conditions, some of which may not be satisfied.

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 2018, 2017, and 2016 include \$0.1 million, (\$2.2) million, and (\$1.5) million, respectively, of net impairment recovery/(charges) related to our hotels. Factors, many of which are outside our control, 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 affect our results of operations. We can provide no assurance that any impairment loss recognized would not be material to 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.

We face risks associated with the use of debt, including the ability to obtain debt financing and refinancing risk.

We may not be able to successfully obtain debt financing or we may not be able to extend, refinance, or repay our existing debt due to a number of factors, including decreased property valuations, limited availability of credit, tightened lending standards, or deteriorating economic conditions. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses. We have placed mortgages on certain of our hotel properties, have assumed mortgages on other hotels we acquired and may place additional mortgages on certain of our hotels to secure other debt. To the extent we cannot meet any future debt service obligations, we will risk losing some or all of our hotel properties that are pledged to secure our obligations to foreclosure. If we lack the ability to raise debt or refinance existing debt, our ability to execute our business strategy will be significantly hampered and our financial results may be significantly affected.

Our debt service obligations could adversely affect 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 affect our stock price and our ability to make distributions to our stockholders

Our results may be negatively affected by interest rate fluctuations and our attempts to hedge this risk may not be effective.

At December 31, 2018, we had long-term debt related to held for use assets of \$138.0 million, of which \$88.3 million is variable rate debt without an interest rate swap in place that effectively locks its interest rate. 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 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.

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

At December 31, 2018, all 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 affect 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. For example, one of our franchisors advised us in February 2019 that two of our hotels have dropped below the required level for guest satisfaction surveys, and that if the hotels do not achieve compliance, it reserves the right to elect to terminate the franchise agreements. 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 affect 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 affect our revenue. This loss of revenue could, therefore, also adversely affect our cash available for distribution to shareholders.

Joint venture investments could be adversely affected 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.

On August 22, 2016, we entered into a joint venture which acquired the 254-room Aloft hotel in downtown Atlanta, Georgia. Our joint venture partner has joint approval rights with us with respect to most major decisions regarding the hotel or the joint venture. In addition, 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. Furthermore, if a joint venture partner becomes bankrupt or otherwise defaults on its obligations under a joint venture agreement, we may be unable to continue the joint venture other than by purchasing such joint venture partner's interests or the underlying assets at a premium to the market price. If any of the above risks are realized, it could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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

The growth of Internet travel intermediaries could adversely affect the Company's business and profitability.

Although a majority of rooms sold via the Internet are sold through hotel franchisor websites, some of the Company's hotel rooms are booked through Internet travel intermediaries, including but not limited to Travelocity.com, Expedia.com, and Priceline.com. These Internet travel intermediaries purchase rooms at a negotiated, net of fees, discount from participating hotels, which typically results in lower room rates than the Company's franchisor or manager otherwise could have obtained. Although the Company's managers and franchisors may have established agreements with many of these intermediaries that limit transaction fees for hotels, there be no assurance that the Company's managers and franchisors will be able to renegotiate such agreements upon their expirations with terms as favorable as the provisions that exist today. Moreover, some of these Internet travel intermediaries are attempting to offer hotel guestrooms as a commodity, by increasing the importance of price and general indicators of quality (such as "three-star downtown hotel") at the expense of brand identification. These agencies hope that consumers will eventually develop brand loyalties to their reservations system rather than to the brands under which our hotels are franchised. If the amount of sales made through Internet intermediaries increases significantly, guestroom revenue may flatten or decrease and our profitability may be adversely affected.

We and our hotel managers rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We and our hotel managers rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including

financial transactions and records, personal identifying information, reservations, billing and operating data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as individually identifiable information, including information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. In November 2018, Marriott announced a data security incident involving a guest reservation database. Security breaches, such as the one that occurred at Marriott, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Uninsured and underinsured losses and our ability to satisfy our obligations could adversely affect 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, if required by such 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 or the cash flows lost due to the interruption in operations. 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.

Risks Related to the Hotel Industry

A recession could have a material adverse effect on the hotel industry and 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. A stall in the economic recovery or a resurgent recession could have a material adverse effect on the hotel industry and, thus, on our results of operations.

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

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 affects 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 affect 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 affect the amount of rent we receive from leasing our hotels and reduce the net operating profits of the TRS, which in turn could adversely affect 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.

The hotel industry is seasonal in nature and may affect our cash flow.

Demand for our hotels is seasonal. We generally expect that we will have lower revenue, operating income, and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters. These general trends are, however, influenced by overall economic cycles and the geographic locations of our hotels. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, we expect to utilize cash on hand or borrowings under our credit facility to pay expenses, debt service or to make distributions to our equity holders.

The cyclical nature of the lodging industry may cause fluctuations in our operating performance, which could have a material adverse effect on us.

The hotel industry is highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affects levels of business and leisure travel. In addition to general economic conditions, hotel room supply growth is an important factor that can affect the lodging industry's performance. Overbuilding has, in the past and will continue to have, the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals in our markets could result in returns that are substantially below our expectations or result in losses, which could have a material adverse effect on us.

Competition from other hotels in the markets in which we operate could have a material adverse effect on our results of operations.

The lodging industry is highly competitive. Our hotels compete with other hotels for guests in each market in which our hotels operate based on a number of factors, including location, convenience, brand affiliation, guestroom rates, range of services and guest amenities or accommodations offered and quality of customer service. Competition is often specific to the individual markets in which our hotels are located and includes competition from existing and new hotels. Our competitors may have an operating model that enables them to offer guestrooms at lower rates than we can, which could result in our competitors increasing their occupancy at our expense. Competition could adversely affect our occupancy, Average Daily Rate (“ADR”) and RevPAR, and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which could reduce our profitability and could materially and adversely affect our results of operations.

The increasing use by consumers of alternative lodging market places may adversely affect our profitability.

Additional sources of competition, including alternative lodging marketplaces, such as HomeAway and Airbnb, which operate websites that market available furnished, privately-owned residential properties, including homes and condominiums, that can be rented on a nightly, weekly or monthly basis, may, as they become more accepted, lead to a reduced demand for conventional hotel guest rooms and to an increased supply of lodging alternatives. If the amount of bookings made through the use of alternative lodging market places increases significantly, room revenues may flatten or decrease and our profitability may be adversely affected.

In the past, economic trends, terrorist acts, and military action have adversely affected the hotel industry generally, and similar future events could adversely affect 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 RevPAR generally. We cannot predict the extent to which these factors will directly or indirectly impact your investment in our securities, 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.

The hotel business is capital intensive.

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 affect 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

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 and, thus, may need to raise capital in order to finance any required capital expenditures.

Noncompliance with governmental regulations could adversely affect 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 affect 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 affect the funds available for distribution to our shareholders. To determine whether any costs of this nature might be required, we commission Phase I environmental site assessments, or "ESAs", before we acquire 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 obtain 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 affected.

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 affected 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.

Increases in property taxes would adversely affect our ability to make distributions to our shareholders.

Hotel properties are subject to real and personal property taxes. These taxes may increase as tax rates change and as the properties are assessed or reassessed by taxing authorities. In particular, our property taxes could increase following our hotel purchases as the acquired hotels are reassessed. If property taxes increase, our financial condition, results of operations, and our ability to make distributions to our shareholders could be materially and adversely affected.

Our real estate may contain or develop harmful environmental challenges which could lead to liability for adverse health effects and costs of remediating the problem.

The presence or development of significant environmental challenges at any of our properties could require us to undertake a costly program to remediate the environmental challenge, which would reduce our cash available for distribution. In addition, the presence of a significant environmental challenge could expose us to liability from our guests, employees or our management companies and others if property damage or health concerns arise. Environmental challenges for hotels may include, but is not limited to, mold and bed bugs.

Risks Related to our Organization and Structure

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 and subject to revision.

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 IRS 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 nondeductible 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.

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 benefits 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 flows.

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 affect 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 affect 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 cannot guarantee future distributions.

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

We are required to meet or maintain quarterly loan covenants 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 noncompliance 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 causing the debt maturity to accelerate. We cannot assure you that we can maintain compliance with our loan covenants and 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 stockholders 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 stockholders, which could adversely affect our REIT status.

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

Real Estate Strategies, L.P. (“RES”, which also includes affiliated entities) holds 29% and SREP III Flight-Investco, L.P. (“SREP”, which also includes affiliated entities) holds 24% of the common stock as of December 31, 2018. 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 had the right to designate up to four directors, and SREP has had the right to designate up to three directors, with the number of directors that each may designate based on their respective voting power. RES and SREP will each have the right to separately designate three directors to our board of directors at the annual meeting of shareholders currently scheduled for May 23, 2019. Each of RES and SREP in their respective agreements with us has agreed to vote for the election of the incumbent members of the board of directors and their successors nominated by the nominating committee of the board of directors. As a consequence, the election of the six directors designated by RES and SREP is assured.

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 other shareholders and might negatively affect the market price of our common stock.

The holders of the Series E Preferred Stock have rights senior to holders of common stock.

RES and SREP, our two largest shareholders, own all of the issued and outstanding shares our 6.25% Series E Cumulative Convertible Preferred Stock (“Series E Preferred Stock”). The Series E 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. If we fail to pay a dividend, then during the period that dividends are not paid, the dividend rate increases to 9.50%. Dividends on the Series E 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.

The Series E Preferred Stock votes as a class on matters generally affecting the Series E Preferred Stock, and as long as 434,750 shares of Series E Preferred Stock (47% of the originally issued shares of Series E Preferred Stock) remain outstanding, then 75% approval of the Series E Preferred Stock will be required to approve merger, consolidation, liquidation or winding up of Condor, related party transactions exceeding \$120,000, payment of dividends on common stock except from funds from operations or to maintain REIT status, the grant of exemptions from Condor’s charter limitation on ownership of 9.9% of any class or series of its securities (exclusive of persons currently holding exemptions), issuance of preferred stock, or commitment or agreement to do any of the foregoing.

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the market price of our shares.

At any time, the federal income tax laws governing REITs or the administrative and judicial interpretations of those laws may be amended or changed. We cannot predict when or if any new federal income tax law, regulation or administrative and judicial interpretation, or any amendment to any existing federal income tax law, regulation or administrative or judicial interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative and judicial interpretation.

If our hotel managers do not qualify as "eligible independent contractors" the Company would likely fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. We lease substantially all of our hotels to our TRS. The TRS will not be treated as a "related party tenant," and will not be treated as directly operating a lodging facility to the extent the TRS leases properties from us that are managed by an "eligible independent contractor." In addition, our TRS holding companies will fail to qualify as "taxable REIT subsidiaries" if they lease or own a lodging facility that is not managed by an "eligible independent contractor."

If our hotel managers do not qualify as "eligible independent contractors," we would fail to qualify as a REIT. Each of the hotel management companies that enters into a management contract with our TRS must qualify as an "eligible independent contractor" under the REIT rules in order for the rent paid to us by our TRS to be qualifying income for our REIT income test requirements and for our TRS holding companies to qualify as "taxable REIT subsidiaries". Among other requirements, in order to qualify as an eligible independent contractor a manager must not own more than 35% of our outstanding shares (by value) and no person or group of persons can own more than 35% of our outstanding shares and the ownership interests of the manager, taking into account only owners of more than 5% of our shares and, with respect to ownership interests in such managers that are publicly traded, only holders of more than 5% of such ownership interests. Complex ownership attribution rules apply for purposes of these 35% thresholds. Although we intend to monitor ownership of our shares by our property managers and their owners, there can be no assurance that these ownership levels will not be exceeded.

If our leases with our TRS are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

To qualify as a REIT, we are required to satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRS, which should constitute substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. We have structured our leases, and intend to structure any future leases, so that the leases will be respected as true leases for federal income tax purposes, but there can be no assurance that the IRS will agree with this characterization, not challenge this treatment or that a court would not sustain such a challenge. If the leases were not respected as true leases for federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs and likely would fail to qualify for REIT status.

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 124 hotels through December 31, 2018). We held the disposed hotels for an average period of 14.5 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.

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.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum U.S. federal income tax rate applicable to qualified dividend income payable to certain non-corporate U.S. holders is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced qualified dividend rates. For taxable years beginning after December 31, 2017 and before January 1, 2026, under the recently enacted law informally known as the Tax Cuts and Jobs Act (“TCJA”), non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including “qualified REIT dividends” (generally, dividends received by a REIT shareholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduced corporate tax rate (currently 21%) could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our shares.

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 IRS 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 6.25% Series D Cumulative Convertible Preferred Stock (“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.

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 Bethesda, Maryland, with additional office space in Omaha, Nebraska and Norfolk, Nebraska. The following table sets forth certain information with respect to the hotels owned by us as of December 31, 2018:

New Investment Platform Hotel Portfolio

| Hotel Name | City | State | Rooms | Acquisition Date | Purchase Price (in thousands) |
|------------------------|-----------------|--------------|--------------|-------------------------|--|
| Hilton Garden Inn | Dowell/Solomons | MD | 100 | 05/25/2012 | \$11,500 |
| SpringHill Suites | San Antonio | TX | 116 | 10/01/2015 | \$17,500 |
| Courtyard by Marriott | Jacksonville | FL | 120 | 10/02/2015 | \$14,000 |
| Hotel Indigo | College Park | GA | 142 | 10/02/2015 | \$11,000 |
| Aloft ⁽¹⁾ | Atlanta | GA | 254 | 08/22/2016 | \$43,550 |
| Aloft | Leawood | KS | 156 | 12/14/2016 | \$22,500 |
| Home2 Suites | Lexington | KY | 103 | 03/24/2017 | \$16,500 |
| Home2 Suites | Round Rock | TX | 91 | 03/24/2017 | \$16,750 |
| Home2 Suites | Tallahassee | FL | 132 | 03/24/2017 | \$21,500 |
| Home2 Suites | Southaven | MS | 105 | 04/14/2017 | \$19,000 |
| Hampton Inn & Suites | Lake Mary | FL | 130 | 06/19/2017 | \$19,250 |
| Fairfield Inn & Suites | El Paso | TX | 124 | 08/31/2017 | \$16,400 |
| Residence Inn | Austin | TX | 120 | 08/31/2017 | \$22,400 |
| TownePlace Suites | Austin | TX | 122 | 01/18/2018 | \$19,750 |
| Home2 Suites | Summerville | SC | 93 | 02/21/2018 | \$16,325 |
| | | | 1,908 | | \$287,925 |

Legacy Hotel Portfolio

| Hotel Name | City | State | Rooms | Acquisition Date | Status as of December 31, 2018 |
|---|----------|-------|--------------|------------------|--------------------------------|
| Quality Inn ⁽²⁾ ⁽³⁾ | Solomons | MD | 59 | 06/01/1986 | HFS |
| Total Rooms | | | <u>1,967</u> | | |

- (1) This property is owned through an 80% interest in our unconsolidated Atlanta JV.
- (2) HFS indicates the asset is marketed for sale at December 31, 2018.
- (3) Asset is currently under contract to be sold.

All of our properties are encumbered by either our revolving credit agreement or by mortgage debt at December 31, 2018. 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

Effective on March 15, 2017, the Company effected a reverse stock split of its common stock at a ratio of 1-for-6.5. No fractional shares of common stock were issued as fractional shares were settled in cash. Share and per share information included below has been adjusted for the stock split as if such stock split occurred on the first day of the periods presented.

The Company's common stock began trading on the NYSE American under its current symbol "CDOR" at the open of market trading on July 21, 2017. The Company's common stock previously traded on the NASDAQ Stock Market under the same symbol.

Shareholder Information

As of March 6, 2019, the approximate number of holders of record of our common stock was 62. 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

Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a shareholder as ordinary income. Distributions in excess of current and accumulated earnings and profits generally will be treated as a nontaxable reduction of the shareholder's basis in such

shareholder's shares, to the extent thereof, and thereafter as taxable capital gain. Distributions that are treated as a reduction of the shareholder's basis in its shares will have the effect of increasing the amount of gain, or reducing the amount of loss, recognized upon the sale of the shareholder's shares.

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, the annual distribution requirements under the REIT provisions of the Code, and other factors that the Board of Directors deems relevant.

For income tax purposes, distributions paid per share for the years ended December 31, 2018, 2017, and 2016 were characterized as follows:

| | For the year ended December 31, | | | | | |
|----------------------------------|---------------------------------|-------------|--------------------|-------------|--------------------|-------------|
| | 2018 | | 2017 | | 2016 | |
| | Amount | % | Amount | % | Amount | % |
| Common Shares: | | | | | | |
| Ordinary income | \$ 0.097500 | 10% | \$ 0.117000 | 20% | \$ 0.455000 | 100% |
| Capital gain | - | - | - | - | - | - |
| Return of capital | 0.877500 | 90% | 0.468000 | 80% | - | - |
| Total | <u>\$ 0.975000</u> | <u>100%</u> | <u>\$ 0.585000</u> | <u>100%</u> | <u>\$ 0.455000</u> | <u>100%</u> |
| Series C Preferred Stock: | | | | | | |
| Ordinary income | \$ - | - | \$ - | - | \$ 1.649124 | 100% |
| Capital gain | - | - | - | - | - | - |
| Return of capital | - | - | - | - | - | - |
| Total | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> | <u>\$ 1.649124</u> | <u>100%</u> |
| Series D Preferred Stock: | | | | | | |
| Ordinary income | \$ - | - | \$ 0.104160 | 100% | \$ 0.494792 | 100% |
| Capital gain | - | - | - | - | - | - |
| Return of capital | - | - | - | - | - | - |
| Total | <u>\$ -</u> | <u>-</u> | <u>\$ 0.104160</u> | <u>100%</u> | <u>\$ 0.494792</u> | <u>100%</u> |
| Series E Preferred Stock: | | | | | | |
| Ordinary income | \$ 0.625000 | 100% | \$ 0.522569 | 100% | \$ - | 0% |
| Capital gain | - | - | - | - | - | - |
| Return of capital | - | - | - | - | - | - |
| Total | <u>\$ 0.625000</u> | <u>100%</u> | <u>\$ 0.522569</u> | <u>100%</u> | <u>\$ -</u> | <u>0%</u> |

The common and preferred share distributions declared on December 11, 2018 and paid on January 3, 2019 and December 31, 2018, respectively, were treated as 2018 distributions for tax purposes. The common share distribution declared on December 19, 2017 and paid on January 10, 2018 was treated as a 2018 distribution for tax purposes. The preferred share distribution declared on December 19, 2017 and paid on January 2, 2018 was treated as a 2017 distribution for tax purposes. The common and preferred share distributions declared on December 6, 2016 and paid on January 5, 2017 and January 3, 2017, respectively, were treated as 2016 distributions for tax purposes.

A portion of the redemption price of the Series A and B Preferred Stock that was redeemed for cash on April 15, 2016 included amounts equal to the accrued and unpaid dividends on such stock. However, the entire redemption price, inclusive of amounts equal to accrued and unpaid dividends, was treated as payment in exchange for the redeemed stock and none of the redemption price is treated as a distribution of dividends under the Code for federal income tax purposes.

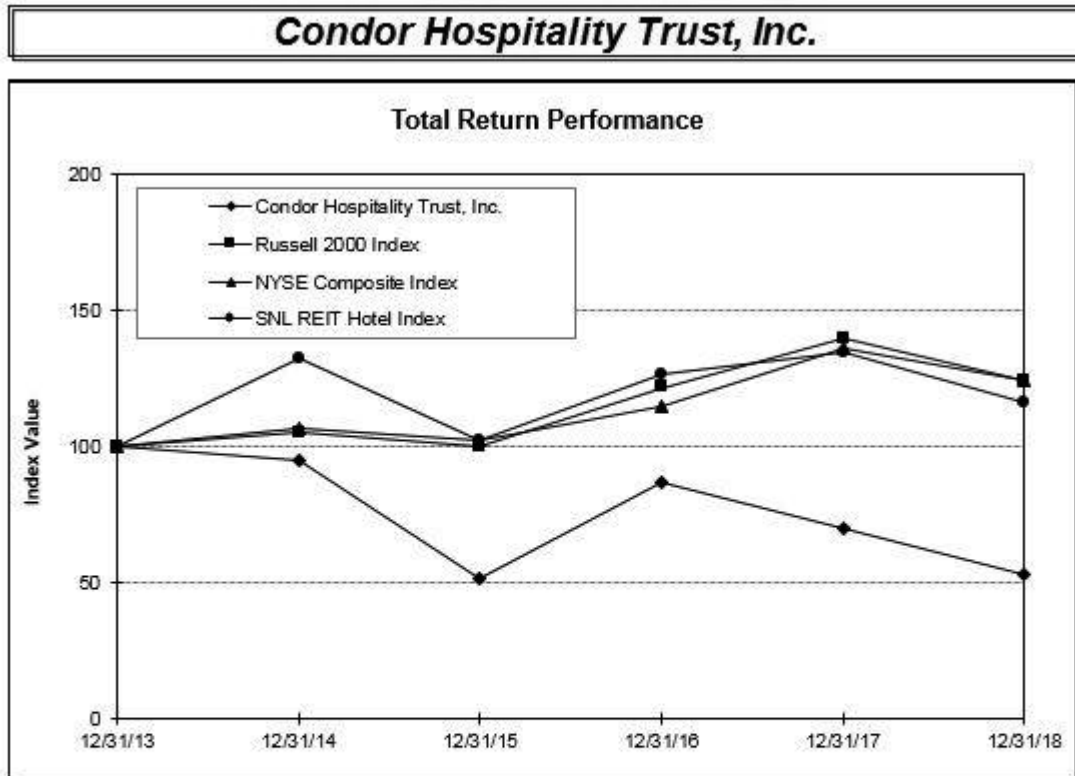
Shares Authorized for Issuance Under Equity Compensation Plans

See Part III, Item 12 for a description of securities authorized for issuance under our 2016 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, 2013 through December 31, 2018, with the cumulative total return on the SNL Securities Hotel REIT Index, the Russell 2000 Index, and the NYSE Composite Index for the same period. The SNL Hotel REIT Index is comprised of publicly traded REITs that focus on investments in hotel properties.

The comparison assumes a starting investment of \$100 on December 31, 2013 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.



| Index | Period Ending | | | | | |
|--------------------------------|---------------|----------|----------|----------|----------|----------|
| | 12/31/13 | 12/31/14 | 12/31/15 | 12/31/16 | 12/31/17 | 12/31/18 |
| Condor Hospitality Trust, Inc. | 100.00 | 94.67 | 51.23 | 86.62 | 70.07 | 52.64 |
| Russell 2000 Index | 100.00 | 104.89 | 100.26 | 121.63 | 139.44 | 124.09 |
| NYSE Composite Index | 100.00 | 106.75 | 102.38 | 114.61 | 136.07 | 123.89 |
| SNL REIT Hotel Index | 100.00 | 131.99 | 102.11 | 126.55 | 134.49 | 116.38 |

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.

| In thousands, except per share data | As of and for the years ended December 31, | | | | |
|---|--|------------|------------|------------|-------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Revenue | | | | | |
| Room rentals and other hotel services | \$ 65,057 | \$ 55,453 | \$ 50,647 | \$ 58,714 | \$ 58,799 |
| Operating expense | | | | | |
| Hotel and property operations | 41,008 | 37,134 | 37,092 | 43,367 | 44,391 |
| Depreciation and amortization | 9,475 | 6,898 | 5,190 | 5,400 | 6,437 |
| General and administrative | 6,217 | 6,552 | 5,792 | 5,493 | 4,192 |
| Acquisitions and terminated transactions | 205 | 1,250 | 550 | 684 | - |
| Equity and terminated transactions | - | 343 | - | 246 | 76 |
| Total operating expenses | 56,905 | 52,177 | 48,624 | 55,190 | 55,096 |
| Operating income | 8,152 | 3,276 | 2,023 | 3,524 | 3,703 |
| Net gain (loss) on disposition of assets | 5,570 | 6,807 | 23,132 | 4,798 | (1) |
| Equity in earnings (loss) of joint venture | (218) | 190 | (244) | - | - |
| Net gain (loss) on derivatives and convertible debt | 317 | 436 | 6,377 | 11,578 | (14,430) |
| Other income (expense), net | (83) | (111) | 55 | 114 | 116 |
| Interest expense | (8,326) | (5,174) | (4,710) | (5,522) | (7,116) |
| Loss on debt extinguishment | - | (967) | (2,187) | (213) | (158) |
| Impairment (loss) recovery, net | 93 | (2,151) | (1,477) | (3,829) | (1,269) |
| Earnings (loss) from continuing operations before income taxes | 5,505 | 2,306 | 22,969 | 10,450 | (19,155) |
| Income tax (expense) benefit | (335) | 595 | (125) | - | - |
| Earnings (loss) from continuing operations | 5,170 | 2,901 | 22,844 | 10,450 | (19,155) |
| Gain from discontinued operations, net of tax | - | - | 678 | 3,872 | 2,896 |
| Net earnings (loss) | 5,170 | 2,901 | 23,522 | 14,322 | (16,259) |
| (Earnings) loss attributable to noncontrolling interest | 195 | (20) | (727) | (1,197) | 23 |
| Net earnings (loss) attributable to controlling interests | 5,365 | 2,881 | 22,795 | 13,125 | (16,236) |
| Dividends declared and undeclared and in kind dividends deemed on preferred stock | (578) | (12,243) | (20,748) | (3,632) | (3,452) |
| Net earnings (loss) attributable to common shareholders | \$ 4,787 | \$ (9,362) | \$ 2,047 | \$ 9,493 | \$ (19,688) |
| Weighted average number of common shares - basic | 11,784 | 9,438 | 761 | 752 | 600 |
| Weighted average number of common shares - diluted | 11,886 | 9,438 | 5,536 | 3,575 | 600 |
| Earnings per Share | | | | | |
| Continuing operations - Basic | \$ 0.40 | \$ (1.00) | \$ 1.82 | \$ 8.06 | \$ (37.64) |
| Discontinued operations - Basic | - | - | 0.85 | 4.55 | 4.81 |
| Total - Basic Earnings (Loss) per Share | \$ 0.40 | \$ (1.00) | \$ 2.67 | \$ 12.61 | \$ (32.83) |
| Diluted Earnings Per Share (EPS) | | | | | |
| Continuing operations - Diluted | \$ 0.40 | \$ (1.00) | \$ 0.78 | \$ (0.98) | \$ (37.64) |
| Discontinued operations - Diluted | - | - | 0.13 | 0.98 | 4.81 |
| Total - Diluted Earnings (Loss) per Share | \$ 0.40 | \$ (1.00) | \$ 0.91 | \$ - | \$ (32.83) |
| Balance sheet data | | | | | |
| Total investment in hotel properties, net | \$ 234,270 | \$ 219,580 | \$ 114,871 | \$ 130,699 | \$ 139,182 |
| Cash and cash equivalents | \$ 4,151 | \$ 5,441 | \$ 8,326 | \$ 4,870 | \$ 173 |
| Total assets | \$ 253,448 | \$ 242,980 | \$ 140,665 | \$ 142,346 | \$ 144,820 |
| Total debt, net of deferred financing costs, including convertible debt at fair value | \$ 137,930 | \$ 121,650 | \$ 64,035 | \$ 86,011 | \$ 91,063 |
| Total equity | \$ 107,852 | \$ 111,814 | \$ 70,799 | \$ 34,495 | \$ 19,092 |

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 Condor Hospitality Limited Partnership, our operating partnership, for which we serve as general partner. As of December 31, 2018, the Company owned 16 hotels, representing 1,967 rooms, in eight states, including one hotel owned through an 80% interest in an unconsolidated joint venture.

Hotel Property Portfolio Activity

Acquisitions

During the year ended December 31, 2018, the Company acquired the following two wholly owned hotel properties (in thousands):

| | Date of acquisition | Number of rooms | Total contractual purchase price | Total purchase price & acquisition costs | Debt at acquisition ⁽¹⁾ | Issuance of common units ⁽²⁾ | Net cash paid |
|------------------------------|----------------------------|------------------------|---|---|---|--|----------------------|
| TownePlace Suites Austin, TX | 01/18/2018 | 122 | \$ 19,750 | \$ 19,813 | \$ 19,813 | \$ - | \$ - |
| Home2 Suites Summerville, SC | 02/21/2018 | 93 | 16,325 | 16,390 | 14,818 | 50 | 1,522 |
| Total | | 215 | \$ 36,075 | \$ 36,203 | \$ 34,631 | \$ 50 | \$ 1,522 |

(1) All debt was drawn from the credit facility at acquisition.

(2) Total issuance of 259,685 common units in the operating partnership. Common units may be redeemed at a rate of one common share for 52 common units.

Dispositions

Pursuant to our disposition strategy, the following hotel sales were completed in 2018:

| Date of sale | Location | Brand | Condor lender | Number of rooms | Gross proceeds (in thousands) |
|---------------------|-----------------|----------------|----------------------|------------------------|--------------------------------------|
| 01/25/2018 | Creston, IA | Supertel Inn | Credit facility | 41 | \$ 2,050 |
| 03/15/2018 | South Bend, IN | Comfort Suites | Credit facility | 135 | 6,100 |
| 05/30/2018 | Fort Wayne, IN | Comfort Suites | Credit facility | 127 | 7,100 |
| 08/30/2018 | Creston, IA | Super 8 | Credit facility | 121 | 5,100 |
| | | | Total | 424 | \$ 20,350 |

Net proceeds, after the payment of related expenses, totaled \$19.7 million in 2018. The net proceeds were used to repay borrowings under the Company’s credit facility.

Based on the criteria discussed in the footnotes to the consolidated financial statements, as of December 31, 2018, the Company had one hotel classified as held for sale. As of December 31, 2017, the Company had three hotels held for sale and during 2018 classified an additional two hotels as held for sale. Four of these hotels were sold during 2018. 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 Accounting Standards Update (“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 (excluding those subsequently reclassified as held for use), the last of which was sold in January 2016, are included in discontinued operations for all periods presented as no individual hotel disposition represents a strategic shift that has (or will have) a major effect on our operations or financial results.

Operating Performance Metrics

The following table presents our comparative same-store occupancy, ADR, and RevPAR for all our hotels owned at December 31, 2018, with the exception of the TownePlace Suites Austin, TX (opened on January 3, 2017) and the Home2 Suites Summerville, SC (opened on July 18, 2017), for which there are not comparable prior period results available for all periods presented. Same-store occupancy, ADR, and RevPAR reflect the performance of hotels during the entire period, regardless of our ownership during the period presented. Results for the hotels for periods prior to our ownership were provided to us by prior owners and have not been adjusted by us or audited or reviewed by our independent auditors. The performance metrics for the hotel acquired through 80% ownership of the Atlanta Aloft JV, also presented below, reflect 100% of the operating results of the property, including our interest and the interest of our partner.

| | Year ended December 31, | | | | | |
|---|-------------------------|-----------|-----------|-----------|-----------|-----------|
| | 2018 | | | 2017 | | |
| | Occupancy | ADR | RevPAR | Occupancy | ADR | RevPAR |
| Wholly owned new investment platform properties | 80.68% | \$ 120.39 | \$ 97.14 | 79.72% | \$ 118.90 | \$ 94.78 |
| Atlanta Aloft JV | 75.37% | \$ 144.43 | \$ 108.85 | 76.66% | \$ 137.60 | \$ 105.49 |
| Total new investment platform | 79.89% | \$ 123.79 | \$ 98.89 | 79.26% | \$ 121.61 | \$ 96.39 |
| Total legacy held for sale | 49.59% | \$ 86.46 | \$ 42.88 | 71.77% | \$ 79.62 | \$ 57.14 |
| Total Same-Store Portfolio | 78.85% | \$ 122.99 | \$ 96.98 | 79.00% | \$ 120.31 | \$ 95.05 |

Within the new investment platform, total same-store RevPAR increased 2.5% in 2018, driven by both increases in ADR of 1.3% and occupancy of 1.2%. The largest RevPAR changes in new investment platform hotels are attributable to the San Antonio SpringHill Suites (increase of 12.0%), the El Paso Fairfield Inn (increase of 10.5%), and the Leawood Aloft (decrease of 8.7%). At the San Antonio SpringHill Suites, both occupancy and ADR were up due to special events in the market, a strong convention calendar, and the consistent strength in the local corporate and group market. At the El Paso Fairfield Inn & Suites, significant increases in government business increased occupancy. The results of the Leawood Aloft were negatively impacted by ongoing renovations and to a lesser extent, new supply entering the market

Comparative statistics for 2016 are not presented due to the significant change in the Company's hotel portfolio and the age of the Company's holdings.

Results of Operations

| | Year ended December 31, | | |
|---|-------------------------|-----------------|-----------------|
| | 2018 | 2017 | Variance |
| Revenue | \$ 65,057 | \$ 55,453 | \$ 9,604 |
| Hotel and property operations expense | (41,008) | (37,134) | (3,874) |
| Depreciation and amortization expense | (9,475) | (6,898) | (2,577) |
| General and administrative expense | (6,217) | (6,552) | 335 |
| Acquisition and terminated transactions expense | (205) | (1,250) | 1,045 |
| Equity and terminated transactions expense | - | (343) | 343 |
| Net gain on disposition of assets | 5,570 | 6,807 | (1,237) |
| Equity (loss) in earnings of joint venture | (218) | 190 | (408) |
| Net gain on derivatives and convertible debt | 317 | 436 | (119) |
| Other expense, net | (83) | (111) | 28 |
| Interest expense | (8,326) | (5,174) | (3,152) |
| Loss on extinguishment of debt | - | (967) | 967 |
| Impairment (loss) recovery, net | 93 | (2,151) | 2,244 |
| Income tax benefit (expense) | (335) | 595 | (930) |
| Net earnings | \$ 5,170 | \$ 2,901 | \$ 2,269 |

Comparison of the year ended December 31, 2018 to the year ended December 31, 2017 (in thousands, except per share amounts)

Revenue

During 2018, revenue from continuing operations increased by \$9,604 between the periods. This increase in revenue was driven by changes in the Company's portfolio between the periods with revenue from properties acquired after December 31, 2016 increasing by \$19,463 in 2018 while revenue decreased by \$10,251 as a result of decreased revenue from held for sale and sold properties. The remaining increase in revenue related to held for use properties owned for the entirety of both periods was the result of an increase in RevPAR on those properties.

Expenses

Hotel and property operations expense increased by \$3,874 between the periods primarily as a result of increased expenses from properties acquired after December 31, 2016 of \$11,702 which were partially offset by decreased expenses from held for sale and sold properties of \$7,728 between the periods. In total, hotel and property operations expenses decreased as a percentage of total revenue to 63.0% from 67.0% for the year ended December 31, 2018 and 2017, respectively. This decrease was both a result of increased ADR in our hotel portfolio and because fewer legacy hotels remain in our portfolio and new investment platform hotels have higher operating margins than the hotels that were sold during and between the periods.

Depreciation expense increased by \$2,577 between the periods as a result of an increase in the value of the Company's held for use hotel property portfolio between the periods as a result of the two acquisitions completed in 2018 and seven hotel acquisitions completed in 2017. Interest expense also increased by \$3,152 between the periods as a result of increased debt balances due to the increased size of the Company's hotel portfolio and an increase in the weighted average interest rate on total debt outstanding due to changing market conditions (from 4.50% at December 31, 2017 to 5.10% at December 31, 2018).

General and administrative expense decreased by \$335 between the periods largely as a result of decreased professional fees as a result of decreased transactional activity.

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 and expense incurred pursuing potential acquisitions. Prior to January 1, 2018, hotel acquisition costs were expensed for both completed and potential acquisitions. Beginning on January 1, 2018, with the implementation of ASU No. 2017-01, these costs are capitalized if they relate to completed hotel acquisitions accounted for as asset acquisitions and expensed only when related to potential acquisitions not subsequently pursued or terminated transactions, leading to the period over period decrease in these expenses. See further discussion of ASU No. 2017-01 in Note 1, *Organization and Summary of Significant Accounting Policies*, to our consolidated financial statements.

Equity transaction costs totaled \$343 in 2017, all of which was incurred in the first quarter of 2017 as a result of the one-time non-cash expense of \$289 associated with the exchange of warrants as well as expenses associated with this transaction. No comparable transactions occurred in 2018.

Net Gain on Disposition of Assets

During the year ended December 31, 2018, four hotels were disposed of, three of which were sold with gains totaling \$5,707 and one of which was sold with no gain as this hotel had been previously impaired. During the year ended December 31, 2017, eight hotels were disposed of, four of which were sold with gains totaling \$7,049 and four of which were sold with no gains as these hotels had been previously impaired.

Loss on Extinguishment of Debt

The Company incurred a loss on the extinguishment of debt of \$967 in 2017 as a result of the refinancing of a significant portion of the Company's existing debt with the credit facility during the first quarter and the refinancing of two variable rate Western Alliance Bank loans during the fourth quarter of 2017. No comparable transactions occurred in 2018.

Impairment (Loss) Recovery, net

All impairment losses and recoveries in both periods relate to impairment taken or recovered on properties that are now sold. During the year ended December 31, 2018, we recognized the recovery of impairment on one asset totaling \$93. During the year ended December 31, 2017, we recognized impairment losses totaling \$2,231 on three properties and recoveries totaling \$80 on two properties.

Income Tax Expense

During the fourth quarter of 2017, it was determined by management that the previously recorded full valuation allowance against federal and certain state net deferred tax assets was no longer required as management believes that it is more likely than not that remaining deferred tax assets will be realized. The release of this valuation allowance, partially offset by the tax impact of the TCJA which was passed on December 22, 2017 and lowers the value of the deferred tax assets of the Company by way of lowering the corporate tax rate, led to the net tax benefit of \$595 recognized during 2017. Following this release, during the year ended December 31, 2018, income tax expense totaling \$335 was recognized primarily on income earned by the TRS at a combined federal and state income tax rate of approximately 26%.

Comparison of the year ended December 31, 2017 to the year ended December 31, 2016 (in thousands, except per share amounts)

| | 2017 | Year ended December 31, | | | Continuing operations variance |
|---|---------------------------------|-------------------------|-------------------------|------------------|--------------------------------|
| | | 2016 | 2016 | 2016 | |
| | Continuing operations and Total | Continuing operations | Discontinued operations | Total | |
| Revenue | 55,453 | \$ 50,647 | \$ 6 | \$ 50,653 | \$ 4,806 |
| Hotel and property operations expense | (37,134) | (37,092) | (4) | (37,096) | (42) |
| Depreciation and amortization expense | (6,898) | (5,190) | - | (5,190) | (1,708) |
| General and administrative expense | (6,552) | (5,792) | - | (5,792) | (760) |
| Acquisition and terminated transactions expense | (1,250) | (550) | - | (550) | (700) |
| Equity and terminated transactions expense | (343) | - | - | - | (343) |
| Net gain on disposition of assets | 6,807 | 23,132 | 681 | 23,813 | (16,325) |
| Equity in earnings (loss) of joint venture | 190 | (244) | - | (244) | 434 |
| Net gain on derivatives and convertible debt | 436 | 6,377 | - | 6,377 | (5,941) |
| Other income (expense), net | (111) | 55 | - | 55 | (166) |
| Interest expense | (5,174) | (4,710) | (5) | (4,715) | (464) |
| Loss on extinguishment of debt | (967) | (2,187) | - | (2,187) | 1,220 |
| Impairment (loss) recovery, net | (2,151) | (1,477) | - | (1,477) | (674) |
| Income tax benefit (expense) | 595 | (125) | - | - | 720 |
| Net earnings | \$ 2,901 | \$ 22,844 | \$ 678 | \$ 23,522 | \$ (19,943) |

Revenue

During 2017, revenue from continuing operations increased by \$4,806 between the periods. This increase in revenue was driven by changes in the Company's portfolio between the periods with revenue from properties acquired in or after 2016 increasing by \$23,534 in 2017 while revenue decreased by \$19,724 as a result of decreased revenue from held for sale and sold properties included in continuing operations. The remaining increase in revenue of \$996 related to held for use properties was the result of increases in RevPAR primarily related to the new investment platform hotels purchased in 2015.

Expenses

Hotel and property operations expense from continuing operations in total remained relatively stable between the periods, increasing by \$42, driven by declines resulting from sold hotels offset by increases related to newly acquired properties. In total, hotel and property operations expenses from continuing operations decreased as a percentage of total revenue to 67.0% in 2017 from 73.2% in 2016. This decrease was both a result of increased ADR in our hotel portfolio and because significantly fewer legacy hotels remain in our portfolio and new investment platform properties have higher operating margins than the hotels that were sold during and between the periods.

Depreciation expense increased by \$1,708 between the periods as a result of an increase in the gross value of the Company's held for use hotel property portfolio, largely due to the seven acquisitions made during 2017 with values totaling \$131,800. Similarly, and also driven by an increase in debt balances between the periods resulting primarily from these acquisitions, interest expense increased by \$464. Despite this increase, interest expense was favorably impacted by a decrease in the weighted average interest rate on total debt outstanding between the periods, from 4.86% at December 31, 2016 to 4.50% at December 31, 2017, largely as a result of the lower than historical interest rate obtained on the credit facility refinancing in the first quarter of 2017.

General and administrative expense increased by \$760 between the periods largely as a result of increased compensation costs resulting from stock compensation issued to executive officers in 2017, as well as increased travel and conference expenses. These increases were partially offset by period over period savings on the Company's Directors and Officers insurance coverage.

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 and expense incurred pursuing potential acquisitions. The increase in these expenses between the periods of \$700 was a result of increased acquisition activity in 2017, including the completion of seven acquisitions during the year.

Equity transaction costs totaled \$343 in 2017, all of which was incurred in the first quarter of 2017 as a result of the one-time non-cash expense of \$289 associated with the exchange of warrants as well as expenses associated with this transaction.

Net Gain on Disposition of Assets

During the year ended December 31, 2017, eight hotels were disposed of, four of which were sold with gains totaling \$7,049 and four of which were sold with no gains as these hotels had been previously impaired. During the year ended December 31, 2016, 25 hotels were sold in total, 23 with gains totaling \$23,575 included in continuing operations, one with a gain totaling \$681 included in discontinued operations, and one with no gain as the hotel had been previously impaired.

Net Gain on Derivatives and Convertible Debt

During the year ended December 31, 2017, the Company recognized a net gain on derivatives and convertible debt of \$436, including both a gain on convertible debt of \$246 and a net gain on derivatives of \$190. During the year ended December 31, 2016, the Company recognized a net gain totaling \$6,377 primarily as a result of a decrease in the Company's stock price, which in turn decreased the value assigned to the conversion feature of the 6.25% Series C Cumulative Convertible Preferred Stock ("Series C Preferred Stock") and the outstanding common stock warrants, partially offset by a loss of \$303 on the fair value of the convertible debt entered into on March 16, 2016 due to an increase in stock price from the date that note was entered into through the end of the year.

Loss on Extinguishment of Debt

The Company incurred a loss on the extinguishment of debt of \$967 in 2017 as a result of the refinancing of a significant portion of the Company's existing debt with the credit facility during the first quarter and the refinancing of two variable rate Western Alliance Bank loans during the fourth quarter of 2017. The loss on the extinguishment

of debt that was incurred in 2016 was a result of prepayment penalties recognized upon the disposal of properties encumbered by the Company's Morgan Stanley debt during that year.

Impairment Loss, net

During the year ended December 31, 2017, we incurred \$2,231 of impairment losses and \$80 of recovery of previously recognized impairment. During the year ended December 31, 2016, we recognized impairment losses totaling \$1,477. All impairments recognized in both periods related to hotels held for sale or sold during the periods.

Income Tax Expense

As of December 31, 2016 and during prior periods, a full valuation allowance was recorded against the Company's 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 during 2016 with the exception of amounts totaling \$125 for alternative minimum tax recorded in 2016 related to the use of net operating losses during the period. During the fourth quarter of 2017, it was determined by management that a valuation allowance against federal and certain state net deferred tax assets was no longer required as management believes that it is more likely than not that remaining deferred tax assets will be realized. The release of this valuation allowance, partially offset by the tax impact of the TCJA which was passed on December 22, 2017 and lowers the value of the deferred tax assets of the Company by way of lowering the corporate tax rate, led to the net tax benefit of \$595 recognized during 2017.

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"), EBITDA for real estate ("EBITDA_{re}"), Adjusted EBITDA_{re}, and Hotel EBITDA 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 earnings 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.

FFO and 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 or loss 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 attributable to common shares and common units, which is FFO reduced by preferred stock dividends. AFFO is FFO attributable to common shares and common units adjusted to exclude items we do not believe are representative of the results from our core operations, including non-cash gains or losses on derivatives and convertible debt, stock-based compensation expense, amortization of certain fees, losses on debt extinguishment, and in-kind dividends above stated rates, and cash charges for acquisition and equity transaction costs. 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 to be a useful additional measure of performance for an equity REIT because it facilitates 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 provides a meaningful indication of our performance. We believe that AFFO provides useful supplemental information to investors regarding our

ongoing operating performance that, when considered with net earnings and FFO, is beneficial to an investor's understanding of our operating performance.

The following table reconciles net earnings to FFO and AFFO for the years ended December 31 (in thousands). All amounts presented include both continuing and discontinued operations as well as our portion of the results of our unconsolidated Atlanta JV.

| Reconciliation of Net Earnings to FFO and AFFO | Year ended December 31, | | |
|--|--------------------------------|-----------------|-----------------|
| | 2018 | 2017 | 2016 |
| Net earnings | \$ 5,170 | \$ 2,901 | \$ 23,522 |
| Depreciation and amortization expense | 9,475 | 6,898 | 5,190 |
| Depreciation and amortization expense from JV | 1,155 | 1,140 | 377 |
| Net gain on disposition of assets | (5,570) | (6,807) | (23,813) |
| Net loss on disposition of assets from JV | 157 | 7 | 2 |
| Impairment loss (recovery), net | (93) | 2,151 | 1,477 |
| FFO | 10,294 | 6,290 | 6,755 |
| Dividends declared and undeclared and in kind dividends deemed on preferred stock | (578) | (12,244) | (20,748) |
| FFO attributable to common shares and common units | 9,716 | (5,954) | (13,993) |
| Net gain on derivatives and convertible debt | (317) | (436) | (6,377) |
| Net loss on derivative from JV | 22 | 2 | 5 |
| Acquisitions and terminated transactions expense | 205 | 1,250 | 550 |
| Acquisition expense from JV | - | - | 239 |
| Equity and terminated transactions | - | 343 | - |
| Loss on debt extinguishment | - | 967 | 2,187 |
| Stock-based compensation and LTIP expense | 974 | 1,237 | 305 |
| Amortization of deferred financing fees | 1,443 | 1,066 | 597 |
| Amortization of deferred financing fees from JV | 181 | 181 | 68 |
| Non-recurring dividends above stated rates declared and undeclared and in kind dividends deemed on preferred stock | - | 11,110 | 16,738 |
| AFFO attributable to common shares and common units | \$ 12,224 | \$ 9,766 | \$ 319 |

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

We calculate EBITDA, EBITDAre, and Adjusted EBITDAre by adding back to net earnings or 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 or loss interest expense, loss on debt extinguishment, income tax expense, and depreciation and amortization expense. NAREIT adopted EBITDAre in order to promote an industry-wide measure of REIT operating performance. We adjust EBITDA by adding back net gain/loss on disposition of assets and impairment charges to calculate EBITDAre. To calculate Adjusted EBITDAre, we adjust EBITDAre to add back acquisition and terminated transactions expense and equity transactions expense, which are cash charges. We also add back stock –based compensation expense and gain/loss on derivatives and convertible debt, which are non-cash charges. EBITDA, EBITDAre, and Adjusted EBITDAre, as presented, may not be comparable to similarly titled measures of other companies.

We believe EBITDA, EBITDAre, and Adjusted EBITDAre 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 Company further excludes general and administrative expenses, other non-operating income or expense, and certain hotel and property operations expenses that are not allocated to individual properties in assessing hotel performance (primarily certain general liability and other insurance costs, land lease costs, and office and banking fees) from Adjusted EBITDAre to calculate Hotel EBITDA. Hotel EBITDA, as presented, may not be comparable to similarly titled measures of other companies.

Hotel EBITDA is intended to isolate property level operational performance over which the Company’s hotel operators have direct control. We believe Hotel EBITDA is helpful to investors as it better communicates the comparability of our hotels’ operating results for all of the Company’s hotel properties and is used by management to measure the performance of the Company’s hotels and the effectiveness of the operators of the hotels.

The following table reconciles net earnings to EBITDA, EBITDAre, Adjusted EBITDAre, and Hotel EBITDA for the years ended December 31 (in thousands). All amounts presented include both continuing and discontinued operations as well as our portion of the results of our unconsolidated Atlanta JV.

| Reconciliation of Net Earnings to EBITDA, Adjusted EBITDA, and Hotel EBITDA | Year ended December 31, | | |
|--|--------------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Net earnings | \$ 5,170 | \$ 2,901 | \$ 23,522 |
| Interest expense | 8,326 | 5,174 | 4,715 |
| Interest expense from JV | 2,109 | 1,941 | 618 |
| Loss on debt extinguishment | - | 967 | 2,187 |
| Income tax expense (benefit) | 335 | (595) | 125 |
| Depreciation and amortization expense | 9,475 | 6,898 | 5,190 |
| Depreciation and amortization expense from JV | 1,155 | 1,140 | 377 |
| EBITDA | 26,570 | 18,426 | 36,734 |
| Net gain on disposition of assets | (5,570) | (6,807) | (23,813) |
| Net loss on disposition of assets from JV | 157 | 7 | 2 |
| Impairment loss (recovery), net | (93) | 2,151 | 1,477 |
| EBITDAre | 21,064 | 13,777 | 14,400 |
| Net gain on derivatives and convertible debt | (317) | (436) | (6,377) |
| Net loss on derivative from JV | 22 | 2 | 5 |
| Stock-based compensation and LTIP expense | 974 | 1,237 | 305 |
| Acquisition and terminated transactions expense | 205 | 1,250 | 550 |
| Acquisition and terminated transactions expense from JV | - | - | 239 |
| Equity and terminated transactions expense | - | 343 | - |
| Adjusted EBITDAre | 21,948 | 16,173 | 9,122 |
| General and administrative expense, excluding stock compensation and LTIP expense | 5,243 | 5,315 | 5,487 |
| Other expense (income), net | 83 | 111 | (55) |
| Unallocated hotel and property operations expense | 364 | 351 | 467 |
| Hotel EBITDA | \$ 27,638 | \$ 21,950 | \$ 15,021 |
| Revenue | \$ 65,057 | \$ 55,453 | \$ 50,653 |
| JV revenue | 9,510 | 9,266 | 2,962 |
| Total Company and JV revenue | \$ 74,567 | \$ 64,719 | \$ 53,615 |
| Hotel EBITDA as a percentage of revenue | 37.1% | 33.9% | 28.0% |

Liquidity and Capital Resources

Liquidity Requirements

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 credit facility, and the release of restricted cash upon the satisfaction of usage requirements. At December 31, 2018, the Company had \$4.2 million of cash and cash equivalents, \$5.0 million of restricted cash on hand, and \$7.4 million of unused availability under its credit facility. 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, restricted cash funding obligations, and the payment of dividends in accordance with the REIT requirements of the Code and as required in connection with our Series E Preferred Stock. Subsequent to an amendment to the credit facility dated March 8, 2019 which extends its maturity to April 1, 2020, and prior to the consideration of any asset sales or our ability to refinance debt subsequent to December 31, 2018, contractual principal payments on our debt outstanding, which include only normal amortization, total \$0.9 million through March 31, 2020. Prior to its current April 1, 2020 maturity, the Company anticipates refinancing the credit facility with its existing lenders or other lenders. We believe we will be able to refinance this debt on similar terms, however, we cannot guarantee we will be successful in our efforts to refinance or repay our maturing debt. We also presently expect to invest approximately \$2.0 million to \$3.0 million in capital expenditures related to hotel properties we currently own through March 31, 2020.

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.

Our longer-term liquidity requirements consist primarily of the cost of acquiring additional hotel properties, renovations and other one-time capital expenditures that periodically are made related to our hotel properties, and scheduled debt payments, including maturing loans. Possible sources of liquidity to fund debt maturities and acquisitions and to meet other obligations include additional secured or unsecured debt financings, proceeds from public or private issuances of debt or equity securities, and additional borrowings under our existing credit facility.

Sources and Uses of Cash

Cash provided by Operating Activities. Our cash provided by operations was \$10.7 million, \$9.6 million, and \$2.8 million for the years ended December 31, 2018, 2017, and 2016, respectively. These changes in operating cash flows were driven by changes in net income, after adjusting for non-cash items, which increased by \$4.3 million in 2018 from 2017 and by \$4.1 million in 2017 from 2016. During 2018, this increase was partially offset by a decrease in liabilities of \$1.7 million driven by differences in the timing of the payment of property taxes. During 2017, an increase in accrued expenses largely due to increased accrued interest and increased hotel expense accruals due to the increased size of the Company's portfolio also contributed to the increase in operating cash flows. Other changes in operating assets and liabilities between the periods discussed were individually insignificant.

Cash provided by (used in) Investing Activities. Our cash provided by (used in) investing activities was (\$16.5 million), (\$96.8 million), and \$23.4 million for the years ended December 31, 2018, 2017, and 2016, respectively. The increase in these cash flows in 2018 was driven by decreased cash spent on hotel acquisitions of \$86.6 million, partially offset by a decrease in net proceeds from the sale of hotels of \$7.9 million between the periods. The decrease in investing cash flows in 2017 from 2016 was primarily the result of increased cash expenditures related to hotel acquisitions of \$100.6 million and decreased net proceeds from the sale of properties of \$31.0 million between the periods. These decreases were partially offset by \$9.3 million of cash contributed to form the Atlanta JV in the third quarter of 2016.

Cash provided by (used in) Financing Activities. Our cash provided by (used in) financing activities was \$4.6 million, \$83.9 million, and (\$21.2 million) for the years ended December 31, 2018, 2017, and 2016, respectively. The decreased cash flow in 2018 was primarily the result of decreased cash flows from equity issuances of \$46.0 million, which included the issuance of common stock of \$45.9 million in the first quarter of 2017, as well as decreased net cash inflows from debt activities of \$31.8 million, resulting primarily from fewer property acquisitions between the periods.

The increase in financing cash flows in 2017 from 2016 was the result of increased cash flows from equity issuances, which included the issuance of common stock of \$45.9 million in the first quarter of 2017 and shares under the Company's ATM in 2017 of \$1.6 million, and the net cash flows from preferred stock issuances and redemptions in the first quarter of 2016 of \$8.7 million. Additionally, the Company had increased net cash inflows related to debt activity in 2017 of \$72.8 million resulting from increased debt issuances related to properties acquired and the credit facility during the period, including consideration of the payment of related deferred financing costs and early extinguishment penalties. These increases were partially offset by increased dividend payments of \$5.1 million in 2017.

Outstanding Indebtedness

At December 31, 2018, we had long-term debt of \$138.0 million associated with assets held for use with a weighted average term to maturity of 2.1 years and a weighted average interest rate of 5.15%. Of this total, at December 31, 2018, \$23.6 million was fixed rate debt with a weighted average term to maturity of 1.9 years and a weighted average interest rate of 4.41% and \$114.4 million was variable rate debt with a weighted average term to maturity of 2.9 years and a weighted average interest rate of 5.30%. At December 31, 2017, we had long-term debt of \$114.3 million associated with assets held for use with a weighted average term to maturity of 3.2 years and a weighted average interest rate of 4.34%. Of this total, at December 31, 2017, \$24.3 million was fixed rate debt with a weighted average term to maturity of 2.4 years and a weighted average interest rate of 4.41% and \$90.0 million was variable rate debt with a weighted average term to maturity of 4.1 years and a weighted average interest rate of 4.32%.

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 (in thousands):

| | Held for sale | Held for use | Total |
|------------|-----------------|-------------------|-------------------|
| 2019 | \$ - | \$ 1,136 | \$ 1,136 |
| 2020 | 1,138 | 89,580 | 90,718 |
| 2021 | - | 14,344 | 14,344 |
| 2022 | - | 24,886 | 24,886 |
| 2023 | - | 214 | 214 |
| Thereafter | - | 7,840 | 7,840 |
| Total | <u>\$ 1,138</u> | <u>\$ 138,000</u> | <u>\$ 139,138</u> |

Financial Covenants

We are required to satisfy various financial covenants within our debt agreements, including the following financial covenants within our credit facility:

- **Leverage Ratio:** The ratio of consolidated total indebtedness to consolidated total asset value cannot exceed 60%. Commencing on April 1, 2020, the foregoing leverage ratio will no longer be applicable, and in lieu thereof, the ratio of consolidated total indebtedness to adjusted consolidated EBITDA for the most recently ended four fiscal quarters cannot exceed 6.25 to 1.
- **Secured Leverage Ratio:** The ratio of consolidated secured indebtedness (excluding the credit facility) to consolidated total asset value cannot exceed 40%.
- **Fixed Charge Coverage Ratio:** The ratio of adjusted consolidated EBITDA for the most recently ended four fiscal quarters to consolidated fixed charges for the most recently ended four fiscal quarters cannot be less than 1.50 to 1.
- **Tangible Net Worth:** Consolidated tangible net worth cannot be less than \$55 million plus 80% of net offering proceeds.
- **Unhedged Variable Rate Debt:** Consolidated unhedged variable rate debt cannot exceed 25% of consolidated total asset value.
- **Distributions:** The Company is permitted to make distributions during any period of four fiscal quarters in an aggregate amount of up to 95% of funds available for distribution.

Certain of the terms used in the foregoing descriptions of the financial covenants within our credit facility have the meanings given to them in the credit facility, and certain of the financial covenants are subject to pro forma adjustments for acquisitions and sales of hotel properties and for specific capital events.

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 credit facility contains cross-default provisions which would allow the lenders under our credit facility 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 a result of ongoing renovations at the Aloft Leawood property, the Company did not meet its required quarterly debt service coverage ratio on that property-specific debt at December 31, 2018. On March 8, 2019 Great Western Bank waived the required quarterly debt service coverage ratio for the collateralized debt of the Leawood Aloft for December 31, 2018 and March 31, 2019, and modified the required ratio for subsequent periods.

As of December 31, 2018, we are not in default of any of our loans.

Significant Debt Transactions

During 2018, net proceeds from the Company's hotel sales were used to pay down a total of \$19.1 million on the credit facility, proceeds from the credit facility totaling \$34.8 million were used to fund the Company's acquisitions plus related expenses, and an additional \$0.5 million was drawn under the facility for corporate purposes. Available borrowing capacity under the credit facility is based on a borrowing base formula for the pool of hotel properties securing the facility. As of December 31, 2018, the collateral pool consisted of ten hotel properties and unused availability under the credit facility was \$7.4 million. At December 31, 2018, \$89.5 million was outstanding under the credit facility.

Subsequent to year end, on March 8, 2019, the Company extended the maturity of its credit facility to April 1, 2020.

Contractual Obligations

Below is a summary of certain obligations that will require capital as of December 31, 2018 and the effect such obligations are expected to have on our future liquidity and cash flows (in thousands):

| Contractual obligations | Total | Payments due by period | | | |
|---------------------------------------|-------------------|-------------------------------|-------------------|------------------|-----------------------|
| | | 2019 | 2020-2021 | 2022-2023 | 2024 and After |
| Long-term debt including interest (1) | \$ 152,038 | \$ 8,121 | \$ 108,984 | \$ 26,854 | \$ 8,079 |
| Office leases | 246 | 138 | 108 | - | - |
| Total contractual obligations | \$ 152,284 | \$ 8,259 | \$ 109,092 | \$ 26,854 | \$ 8,079 |

(1) Interest rate payments on our variable rate debt have been estimated using interest rates in effect at December 31, 2018.

Long-term debt and office lease payments above include only amounts related to properties classified as held for use. Future debt payments, including interest, related to the held for sale property that is expected to be sold within the next 12 months of \$1.2 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

Our consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that effect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances.

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.

Effective January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) ASU No. 2017-01, *Clarifying the Definition of a Business*. As such, if substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. When we conclude that an acquisition meets this threshold, acquisition costs will be capitalized as part of our allocation of the purchase price of the acquired hotel properties. This guidance is applied prospectively. We concluded that all hotel acquisitions in 2018 were acquisitions of assets and as such acquisition costs were capitalized as part of these transactions.

Prior to January 1, 2018, hotel acquisitions were considered business combinations and acquisition costs, such as transfer taxes, title insurance, environmental and property condition reviews, and legal and accounting fees, were expensed as incurred. These types of costs continue to be expensed if they are related to potential acquisitions that are not completed.

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 and equipment.

Renovations and/or replacements that improve or extend the life of the hotel properties are capitalized and depreciated over their useful lives. Repairs and maintenance are expensed as incurred.

The initial fees incurred to enter into the franchise agreements are capitalized and amortized over the life of the franchise agreements using the straight-line method. Amortization expense is included in depreciation and amortization in the consolidated statements of operations.

On an ongoing 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 estimated 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 to 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.

At the end of each reporting period, 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 FASB issued 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 adoption, only the operations of hotels meeting the criteria to be considered held for sale prior to October 1, 2014, the last of which was sold in January 2016, are included in discontinued operations for all periods presented as no individual hotel disposition represents a strategic shift in operations or has a major effect on our operations or financial results. We anticipate that most of our hotel dispositions will not be classified as discontinued operations as most will not fit this definition.

Gains on the sale of real estate are recognized when a property is sold or are deferred and recognized as income in subsequent periods as conditions requiring deferral are satisfied or expire without further cost to us.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes most existing lease guidance in U.S. GAAP when it becomes effective. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Company for annual periods in fiscal years beginning after December 15, 2018 and mandates a modified retrospective transition method with the option of restatement of the comparative periods presented in the year of adoption or applying the new standard only in the year of adoption with a cumulative-effect adjustment in the period of adoption. We believe that application of this standard will result in a right of use asset and the related lease liability of less than \$0.6 million, although changes in discount rates or other variables may have an effect on the calculation of this recorded amount. We are still evaluating the impact this ASU will have on the disclosures within the notes to the consolidated financial statements. We expect that the adoption of this standard will have minimal impact on our statement of operations. We expect to adopt the new standard on January 1, 2019 and use the effective date as our date of initial application. We also expect to elect all the new standard's available transition practical expedients. Consequently, financial information will not be updated and disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

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. At December 31, 2018, our market risk arises primarily from interest rate risk relating to variable rate borrowings and the market risk related to our convertible debt and the embedded redemption right in the Series E Preferred Stock that fair value 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, 2018, we have an interest rate swap in place which effectively locks the variable interest rate on our Wells Fargo debt (December 31, 2018 balance of \$26.0 million) at 4.44% and an interest rate cap in place which caps the 30-day LIBOR interest rate on \$50.0 million of our credit facility (December 31, 2018 balance of \$89.5 million) at 2.5%. 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 \$1.1 million of debt related to hotel properties held for sale (dollars in thousands). For the purposes of this presentation, the Wells Fargo debt is considered fixed rate debt as the variable interest rate is effectively locked with the previously discussed interest rate swap.

| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|--------------------------------|----------|-----------|-----------|-----------|--------|------------|------------|
| Fixed rate debt | \$ 1,136 | \$ 1,231 | \$ 14,344 | \$ 24,886 | 214 | \$ 7,840 | \$ 49,651 |
| Average fixed interest rate | 4.41% | 4.40% | 4.34% | 4.44% | 4.54% | 4.54% | 4.42% |
| Variable rate debt | \$ - | \$ 88,349 | \$ - | \$ - | \$ - | \$ - | \$ 88,349 |
| Average variable interest rate | -% | 5.47% | -% | -% | -% | -% | 5.47% |
| Total debt | \$ 1,136 | \$ 89,580 | \$ 14,344 | \$ 24,886 | \$ 214 | \$ 7,840 | \$ 138,000 |
| Total average interest rate | 4.41% | 5.45% | 4.34% | 4.34% | 4.54% | 4.54% | 5.09% |

At December 31, 2018, approximately 36.0% 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 64.0% of our debt is subject to floating rates. Assuming no increase in the level of our variable debt outstanding at December 31, 2018 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 \$0.9 million per year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Condor Hospitality Trust, Inc. and Subsidiaries Index to Consolidated Financial Statements and Schedule III

| | <u>Page</u> |
|--|--------------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 44 |
| <u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u> | 45 |
| <u>Consolidated Statements of Operations for years ended December 31, 2018, 2017, and 2016</u> | 46 |
| <u>Consolidated Statements of Equity for the years ended December 31, 2018, 2017, and 2016</u> | 47 |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017, and 2016</u> | 48 |
| <u>Notes to Consolidated Financial Statements</u> | 49 |
| <u>Schedule III – Real Estate and Accumulated Depreciation</u> | 84 |
| <u>Notes to Schedule III – Real Estate and Accumulated Depreciation</u> | 86 |

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Condor Hospitality Trust, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Condor Hospitality Trust, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes and financial statement schedule, Schedule III – Real Estate and Accumulated Depreciation (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

(signed) KPMG LLP

We have served as the Company's auditor since 2001.

McLean, Virginia
March 11, 2019

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

| | As of December 31, | |
|---|--------------------|-------------------|
| | 2018 | 2017 |
| Assets | | |
| Investment in hotel properties, net | \$ 230,178 | \$ 201,722 |
| Investment in unconsolidated joint venture | 5,866 | 7,747 |
| Cash and cash equivalents | 4,151 | 5,441 |
| Restricted cash, property escrows | 5,005 | 4,894 |
| Accounts receivable, net | 1,290 | 1,707 |
| Prepaid expenses and other assets | 2,227 | 3,220 |
| Derivative assets, at fair value | 639 | 391 |
| Investment in hotel properties held for sale, net | 4,092 | 17,858 |
| Total Assets | \$ 253,448 | \$ 242,980 |
| Liabilities and Equity | | |
| Liabilities | | |
| Accounts payable, accrued expenses, and other liabilities | \$ 5,336 | \$ 7,046 |
| Dividends and distributions payable | 2,330 | 2,470 |
| Convertible debt, at fair value | 1,000 | 1,069 |
| Long-term debt, net of deferred financing costs | 135,810 | 111,097 |
| Long-term debt related to hotel properties held for sale, net of deferred financing costs | 1,120 | 9,484 |
| Total Liabilities | 145,596 | 131,166 |
| Equity | | |
| Shareholders' Equity | | |
| Preferred stock, 40,000,000 shares authorized: | | |
| 6.25% Series E, 925,000 shares authorized, \$.01 par value, 925,000 shares outstanding, liquidation preference of \$9,250 and \$9,395 | 10,050 | 10,050 |
| Common stock, \$.01 par value, 200,000,000 shares authorized; 11,886,003 and 11,833,573 shares outstanding | 119 | 118 |
| Additional paid-in capital | 231,805 | 230,727 |
| Accumulated deficit | (134,970) | (130,489) |
| Total Shareholders' Equity | 107,004 | 110,406 |
| Noncontrolling interest in consolidated partnership (Condor Hospitality Limited Partnership), redemption value of \$435 and \$871 | 848 | 1,408 |
| Total Equity | 107,852 | 111,814 |
| Total Liabilities and Equity | \$ 253,448 | \$ 242,980 |

See accompanying notes to consolidated financial statements.

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

| | Year ended December 31, | | |
|---|--------------------------------|-------------------|-----------------|
| | 2018 | 2017 | 2016 |
| Revenue | | | |
| Room rentals and other hotel services | \$ 65,057 | \$ 55,453 | \$ 50,647 |
| Operating Expenses | | | |
| Hotel and property operations | 41,008 | 37,134 | 37,092 |
| Depreciation and amortization | 9,475 | 6,898 | 5,190 |
| General and administrative | 6,217 | 6,552 | 5,792 |
| Acquisition and terminated transactions | 205 | 1,250 | 550 |
| Equity transactions | - | 343 | - |
| Total operating expenses | 56,905 | 52,177 | 48,624 |
| Operating income | | | |
| Net gain on disposition of assets | 8,152 | 3,276 | 2,023 |
| Equity in earnings (loss) of joint venture | (218) | 190 | (244) |
| Net gain on derivatives and convertible debt | 317 | 436 | 6,377 |
| Other income (expense), net | (83) | (111) | 55 |
| Interest expense | (8,326) | (5,174) | (4,710) |
| Loss on debt extinguishment | - | (967) | (2,187) |
| Impairment recovery (loss), net | 93 | (2,151) | (1,477) |
| Earnings from continuing operations before income taxes | 5,505 | 2,306 | 22,969 |
| Income tax benefit (expense) | (335) | 595 | (125) |
| Earnings from continuing operations | 5,170 | 2,901 | 22,844 |
| Gain from discontinued operations, net of tax | - | - | 678 |
| Net earnings | 5,170 | 2,901 | 23,522 |
| Loss (earnings) attributable to noncontrolling interest | 195 | (20) | (727) |
| Net earnings attributable to controlling interests | 5,365 | 2,881 | 22,795 |
| Dividends declared and undeclared and in kind dividends deemed on preferred stock | (578) | (12,243) | (20,748) |
| Net earnings (loss) attributable to common shareholders | <u>\$ 4,787</u> | <u>\$ (9,362)</u> | <u>\$ 2,047</u> |
| Earnings (Loss) per Share | | | |
| Continuing operations - Basic | \$ 0.40 | \$ (1.00) | \$ 1.82 |
| Discontinued operations - Basic | - | - | 0.85 |
| Total - Basic Earnings (Loss) per Share | <u>\$ 0.40</u> | <u>\$ (1.00)</u> | <u>\$ 2.67</u> |
| Diluted Earnings (Loss) per Share | | | |
| Continuing operations - Diluted | \$ 0.40 | \$ (1.00) | \$ 0.78 |
| Discontinued operations - Diluted | - | - | 0.13 |
| Total - Diluted Earnings (Loss) per Share | <u>\$ 0.40</u> | <u>\$ (1.00)</u> | <u>\$ 0.91</u> |

See accompanying notes to consolidated financial statements.

Condor Hospitality Trust, Inc. and Subsidiaries
Consolidated Statements of Equity
(In thousands, except per share data)

Years ended December 31, 2018, 2017, and, 2016

| | Shares of preferred stock | Preferred stock | Shares of common stock | Common stock | Additional paid-in capital | Accumulated deficit | Total shareholders' equity | Noncontrolling interest | Total equity |
|---|---------------------------|-----------------|------------------------|--------------|----------------------------|---------------------|----------------------------|-------------------------|--------------|
| Balance at December 31, 2015 | 3,803 | \$ 38 | 760 | \$ 8 | \$ 138,428 | \$ (105,858) | \$ 32,616 | \$ 1,879 | \$ 34,495 |
| Stock-based compensation | - | - | 3 | - | 134 | - | 134 | - | 134 |
| Long-term incentive plan | - | - | - | - | - | - | - | 171 | 171 |
| Issuance of common units | - | - | - | - | - | - | - | 50 | 50 |
| Dividends and distributions declared | - | - | - | - | - | - | - | - | - |
| Common stock (\$0.455 per share) | - | - | - | - | - | (347) | (347) | - | (347) |
| Series D Preferred Stock | - | - | - | - | - | (3,090) | (3,090) | - | (3,090) |
| Redemption of Series A and B Preferred Stock | (803) | (8) | - | - | (7,390) | (5,107) | (12,505) | - | (12,505) |
| Exchange of Series C and issuance of Series D Preferred Stock | 3,245 | 61,303 | - | - | (12,517) | (20,417) | 28,369 | - | 28,369 |
| Net earnings | - | - | - | - | - | 22,795 | 22,795 | 727 | 23,522 |
| Balance at December 31, 2016 | 6,245 | \$ 61,333 | 763 | \$ 8 | \$ 118,655 | \$ (112,024) | \$ 67,972 | \$ 2,827 | \$ 70,799 |
| Stock-based compensation | - | - | 94 | 1 | 1,151 | - | 1,152 | - | 1,152 |
| Long-term incentive plan | - | - | - | - | - | - | - | 85 | 85 |
| Issuance of common stock | - | - | 4,972 | 49 | 47,419 | - | 47,468 | - | 47,468 |
| Issuance of common units | - | - | - | - | - | - | - | 435 | 435 |
| Dividends and distributions declared | - | - | - | - | - | - | - | - | - |
| Common stock (\$0.78 per share) | - | - | - | - | - | (9,103) | (9,103) | - | (9,103) |
| Series D Preferred Stock | - | - | - | - | - | (650) | (650) | - | (650) |
| Series E Preferred Stock | - | - | - | - | - | (483) | (483) | - | (483) |
| Common units (\$0.00375 per unit) | - | - | - | - | (1) | - | (1) | (18) | (18) |
| Fractional common shares settled in reverse stock split | - | - | - | - | - | - | - | - | (1) |
| Conversion of Series D Preferred to common stock and issuance of Series E Preferred Stock | (5,320) | (51,283) | 6,005 | 60 | 61,273 | (11,110) | (1,060) | - | (1,060) |
| Warrant exchange | - | - | - | - | 289 | - | 289 | - | 289 |
| Cancellation of LTIP units | - | - | - | - | 1,941 | - | 1,941 | (1,941) | - |
| Net earnings | - | - | - | - | - | 2,881 | 2,881 | 20 | 2,901 |
| Balance at December 31, 2017 | 925 | \$ 10,050 | 11,834 | \$ 118 | \$ 230,727 | \$ (130,489) | \$ 110,406 | \$ 1,408 | \$ 111,814 |
| Stock-based compensation | - | - | 24 | - | 769 | - | 769 | - | 769 |
| Issuance of common stock | - | - | 28 | 1 | 259 | - | 260 | - | 260 |
| Issuance of common units | - | - | - | - | - | - | - | 50 | 50 |
| Dividends and distributions declared | - | - | - | - | - | - | - | - | - |
| Common Stock (\$0.78 per share) | - | - | - | - | - | (9,268) | (9,268) | - | (9,268) |
| Series E Preferred dividends declared | - | - | - | - | - | (578) | (578) | - | (578) |
| Common unit distribution declared (\$0.015 per unit) | - | - | - | - | 50 | - | 50 | (67) | (67) |
| Redemption of common units | - | - | - | - | - | - | - | (348) | (298) |
| Net earnings | - | - | - | - | - | 5,365 | 5,365 | (195) | 5,170 |
| Balance at December 31, 2018 | 925 | \$ 10,050 | 11,886 | 119 | \$ 231,805 | \$ (134,970) | \$ 107,004 | \$ 848 | \$ 107,852 |

See accompanying notes to consolidated financial statements.

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

| | Year ended December 31, | | |
|---|--------------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Cash flows from operating activities: | | | |
| Net earnings | \$ 5,170 | \$ 2,901 | \$ 23,522 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | 9,475 | 6,898 | 5,190 |
| Net gain on disposition of assets | (5,570) | (6,807) | (23,813) |
| Net gain on derivatives and convertible debt | (317) | (436) | (6,377) |
| Equity in (earnings) loss of joint venture | 218 | (190) | 244 |
| Distributions from cumulative earnings of joint venture | 187 | 51 | - |
| Amortization of deferred financing costs | 1,443 | 1,066 | 597 |
| Loss on extinguishment of debt | - | 967 | 2,187 |
| Impairment (recovery) loss, net | (93) | 2,151 | 1,477 |
| Stock-based compensation and long-term incentive plan expense | 974 | 1,237 | 305 |
| Warrant issuance cost | - | 289 | 12 |
| Provision for deferred taxes | 260 | (660) | - |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in assets | 582 | (350) | (145) |
| Increase (decrease) in liabilities | (1,665) | 2,500 | (432) |
| Net cash provided by operating activities | <u>10,664</u> | <u>9,617</u> | <u>2,767</u> |
| Cash flows from investing activities: | | | |
| Additions to hotel properties | (1,982) | (2,814) | (3,446) |
| Deposit on hotel property and franchise fees | - | (810) | - |
| Investment in joint venture | - | - | (9,280) |
| Distributions in excess of cumulative earnings from joint venture | 1,475 | 1,428 | - |
| Hotel acquisitions | (35,643) | (122,269) | (22,450) |
| Net proceeds from sale of hotel assets | 19,696 | 27,630 | 58,593 |
| Net cash provided by (used in) investing activities | <u>(16,454)</u> | <u>(96,835)</u> | <u>23,417</u> |
| Cash flows from financing activities: | | | |
| Deferred financing costs | (147) | (4,404) | (136) |
| Proceeds from long-term debt | 35,318 | 174,000 | 26,123 |
| Principal payments on long-term debt | (20,265) | (122,400) | (50,270) |
| Debt early extinguishment penalties | - | (454) | (1,752) |
| Proceeds from common stock issuance | 260 | 47,468 | - |
| Series A and B Preferred Stock redemption, including accumulated dividends | - | - | (20,167) |
| Series D Preferred Stock issuance | - | - | 28,881 |
| Series E Preferred Stock issuance costs | - | (1,210) | - |
| Redemption of common units | (298) | - | - |
| Tax withholdings on stock compensation | (205) | - | - |
| Cash dividends paid to common shareholders | (9,257) | (6,944) | (198) |
| Cash dividends paid to common unit holders | (72) | - | - |
| Cash dividends paid to preferred shareholders | (723) | (1,965) | (3,598) |
| Contingent consideration paid subsequent to acquisition | - | (155) | - |
| Other items | - | (59) | (37) |
| Net cash provided by (used in) financing activities | <u>4,611</u> | <u>83,877</u> | <u>(21,154)</u> |
| Increase (decrease) in cash, cash equivalents, and restricted cash | (1,179) | (3,341) | 5,030 |
| Cash, cash equivalents, and restricted cash beginning of period | 10,335 | 13,676 | 8,646 |
| Cash, cash equivalents, and restricted cash end of period | <u>\$ 9,156</u> | <u>\$ 10,335</u> | <u>\$ 13,676</u> |
| Supplemental cash flow information: | | | |
| Interest paid, net of amounts capitalized | \$ 6,091 | \$ 3,885 | \$ 4,229 |
| Income taxes paid | \$ 42 | \$ 203 | \$ 37 |
| Schedule of noncash investing and financing activities: | | | |
| Debt assumed in acquisitions | \$ - | \$ 9,096 | \$ - |
| Fair value of operating partnership common units issued in acquisitions | \$ 50 | \$ 435 | \$ 50 |
| In kind dividends deemed on preferred stock | \$ - | \$ 9,900 | \$ 20,218 |

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. (“Condor”) was incorporated in Virginia on August 23, 1994 and was reincorporated in Maryland on November 19, 2014. Condor 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, 2018, the Company owned 16 hotels in eight states, including one hotel owned through an 80% interest in an unconsolidated joint venture (the “Atlanta JV”). References to the “Company”, “we,” “our,” and “us” herein refer to Condor Hospitality Trust, Inc., including as the context requires, our direct and indirect subsidiaries.

The Company, through its wholly owned subsidiary, Condor Hospitality REIT Trust, owns a controlling interest in Condor Hospitality Limited Partnership (the “operating partnership”), and serves as its general partner. The operating partnership, including its various subsidiary partnerships, holds substantially all of the Company’s assets (with the exception of the furniture and equipment of all properties held by TRS Leasing, Inc.) and conducts all of its operations. At December 31, 2018, the Company owned 99.5% of the common operating units (“common units”) of the operating partnership with the remaining common units owned by other limited partners.

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, the operating partnership and its 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. The operating partnership, the TRS, and their respective subsidiaries are consolidated into the Company’s financial statements.

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 and since 2015, because of their locations and chain scale, are 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 the operating partnership and its subsidiaries and our wholly owned TRS and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Effective on March 15, 2017, the Company effected a reverse stock split of its common stock at a ratio of 1-for-6.5. No fractional shares of common stock were issued as fractional shares were settled in cash. Impacted amounts and share information included in the consolidated financial statements and notes thereto have been adjusted for the stock split as if such stock split occurred on the first day of the periods presented. Certain amounts in the notes to the consolidated financial statements may be slightly different than previously reported due to rounding of fractional shares as a result of the reverse stock split.

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

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.

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.

Effective January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2017-01, *Clarifying the Definition of a Business*. As such, if substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. When we conclude that an acquisition meets this threshold, acquisition costs will be capitalized as part of our allocation of the purchase price of the acquired hotel properties. This guidance is applied prospectively. We concluded that all hotel acquisitions in 2018 were acquisitions of assets and as such acquisition costs were capitalized as part of these transactions.

Prior to January 1, 2018, hotel acquisitions were considered business combinations and acquisition costs, such as transfer taxes, title insurance, environmental and property condition reviews, and legal and accounting fees, were expensed as incurred. These types of costs continue to be expensed if they are related to potential acquisitions that are not completed.

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 and equipment.

Renovations and/or replacements that improve or extend the life of the hotel properties are capitalized and depreciated over their useful lives. Repairs and maintenance are expensed as incurred.

The initial fees incurred to enter into the franchise agreements are capitalized and amortized over the life of the franchise agreements using the straight-line method. Amortization expense is included in depreciation and amortization in the consolidated statements of operations.

On an ongoing 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 estimated fair value.

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

Investment in Joint Venture

If it is determined that we do not have a controlling interest in a joint venture, either through our financial interest in a variable interest entity (“VIE”) or through our voting interest in a voting interest entity (“VOE”) and we have the ability to provide significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliate as they occur, with losses limited to the extent of our investment in, advances to, and commitments to the investee. Pursuant to our Atlanta JV agreement, allocations of the profits and losses of our Atlanta JV may be allocated disproportionately to nominal ownership percentages due to specified preferred return rate thresholds.

Distributions received from a joint venture are classified in the statements of cash flows using the cumulative earnings approach. Distributions are classified as cash inflows from operating activities unless cumulative distributions, including those from prior periods not designated as a return of investment, exceed cumulative recognized equity in earnings of the joint venture. Excess distributions are classified as cash inflows from investing activities as a return of investment.

On an annual basis or at interim periods if events and circumstances indicate that the investment may be impaired, the Company reviews the carrying value of its investment in unconsolidated joint venture to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. The investment is considered impaired if its estimated fair value is less than the carrying amount of the investment and that impairment is other than temporary.

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 to 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.

At the end of each reporting period, 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 FASB issued 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 adoption, only the operations of hotels meeting the criteria to be considered held for sale prior to October 1, 2014, the last of which was sold in January 2016, are included in discontinued operations for all periods presented as no individual hotel disposition represents a strategic shift in operations or has a major effect on our operations or financial results. We anticipate that most of our hotel dispositions will not be classified as discontinued operations as most will not fit this definition.

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

Gains on the sale of real estate are recognized when a property is sold or are deferred and recognized as income in subsequent periods as conditions requiring deferral are satisfied or expire without further cost to us.

Cash and Cash Equivalents and Restricted Cash

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 Huntington Bancshares Incorporated at December 31, 2018 and 2017. The balances on deposit at Huntington Bancshares Incorporated 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 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.

Deferred Financing Costs

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. Deferred financing costs are presented on the balance sheets as a direct deduction from the associated debt liability.

Derivative Assets and 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 sheets certain bifurcated embedded derivative instruments such as conversion and redemption features in convertible instruments and certain common stock warrants.

All derivatives recognized by the Company are reported as derivative assets and liabilities on the balance sheets and are adjusted to their fair value at each reporting date. Realized and unrealized gains and losses on derivative instruments are included in net gain on derivatives and convertible debt with the exception of realized gains and losses related to interest rate instruments which are included in interest expense on the statements of operations.

Noncontrolling Interest

Noncontrolling interest in the operating partnership 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 losses are allocated to noncontrolling interest in accordance with the weighted average percentage ownership of the operating partnership during the period.

Revenue Recognition

Revenue consists of amounts derived from hotel operations, including the sales of rooms, food and beverage, and other ancillary services. Room revenue is recognized over a customer's hotel stay at the daily contract rate as the Company's performance obligations are fulfilled at the end of each day that the customer is provided a room. Revenue from food and beverage and other ancillary services is generated when a customer chooses to purchase goods or services separately from a hotel room and revenue is recognized on these distinct goods and services at the contract rate at the point in time or over the time period that goods or services are provided to the customer and the related performance obligations are fulfilled. Certain ancillary services are provided by third parties and the Company assesses whether it is the principal or agent in these arrangements. If the Company is the agent, revenue is recognized based upon the commission earned from the third party. If the Company is the principal, the Company recognizes revenue based upon the gross sales price. Accounts receivable primarily represents receivables from

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

hotel guests who occupy hotel rooms and utilize hotel services. The Company maintains an allowance for doubtful accounts sufficient to cover estimated potential credit losses.

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 statements of operations.

Hotel operating revenues can be disaggregated into the following categories to demonstrate how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows:

| | Year ended December 31, | | |
|--------------------|-------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Rooms | \$ 62,036 | \$ 52,509 | \$ 47,989 |
| Food and beverages | 1,524 | 1,554 | 1,158 |
| Other | 1,497 | 1,390 | 1,500 |
| Total revenue | <u>\$ 65,057</u> | <u>\$ 55,453</u> | <u>\$ 50,647</u> |

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 (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 statements of operations. The Company recognizes interest and penalties, as

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

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, 2018, 2017, and 2016, 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 assets, liabilities, and equity instruments, to perform impairment assessments, to account for hotel acquisitions, in the valuation of stock-based compensation, 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 8) and other financial instruments carried at fair value, the carrying amounts of the Company's financial instruments approximates their fair values due to their short-term nature or variable market-based interest rates.

Fair Value Option

Under U.S. GAAP, the Company has the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument by instrument basis, with changes in fair value reported in net earnings. This option was elected for the treatment of the Company's convertible debt entered into on March 16, 2016 (see Note 7).

Stock-Based Compensation

Stock-based compensation is measured at the fair value of the award on the date of grant and recognized as compensation expense on a straight-line basis over the requisite service period. Awards that contain a performance condition are reviewed at least quarterly to assess the achievement of the performance condition. Compensation expense will be adjusted when a change in the assessment of achievement of the specific performance condition level is determined to be probable. The determination of fair value of these awards is subjective and involves significant estimates and assumptions including expected volatility of our stock, expected dividend yield, expected term, and assumptions of whether these awards will achieve performance thresholds. We believe that the assumptions and estimates utilized are appropriate based on the information available to management at the point of measurement. 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 common units. The Company has elected to account for forfeitures of stock-based compensation as they occur.

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

Recently Adopted Accounting Standards

In November 2014, the FASB issued ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity*, which clarifies certain of the criteria for determining whether derivative features in a hybrid financial instrument should be separately recognized. ASU 2014-16 is effective for fiscal years beginning after December 15, 2015 and permits either a retrospective or cumulative effect transition method. ASU 2014-16 was adopted by the Company on January 1, 2016 and was utilized in determining the accounting for the 6.25% Series D Cumulative Convertible Preferred Stock (“Series D Preferred Stock”) issued in March 2016 and the 6.25% Series E Cumulative Preferred Stock (“Series E Preferred Stock”) issues in March 2017 (see Note 10).

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation - Amendments to the Consolidation Analysis*, which amends the current consolidation guidance effecting both the VIE and VOE consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics. The Company adopted this standard on January 1, 2016 and concluded that the operating partnership now meets the criteria to be considered a VIE of which the Company is the primary beneficiary and, accordingly, the Company continues to consolidate the operating partnership. The Company’s sole significant asset is its investment in the operating partnership, and consequently, substantially all of the Company’s assets and liabilities represent those assets and liabilities of the operating partnership. All of the Company’s debt is an obligation of the operating partnership. This ASU was also used in the determination of the accounting for the Atlanta JV entered into in August 2016 (see Note 5).

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheets as a direct deduction from the associated debt liability. The Company adopted this standard on January 1, 2016 and presents all debt issuance costs as a direct deduction from the carrying value of the debt liability. Adoption of this standard was applied retrospectively for all periods presented, effecting only the presentation of the balance sheets. The adoption of this standard did not have a material impact on the Company’s financial position and had no impact on the results of operations or cash flows.

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 replaced most existing revenue recognition guidance in U.S. GAAP when it became 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 was effective for the Company on January 1, 2018 and was adopted on that date using the modified retrospective transition method. Due to the short-term nature of the Company’s revenue streams, the adoption of this standard had no impact on the Company’s revenue or net income, and therefore, no adjustment was recorded to the Company’s opening accumulated deficit. The adoption of this standard resulted in additional disclosures. Furthermore, for real estate sales to third parties, primarily a result of historic dispositions of real estate in exchange for cash with few contingencies, the standard did not impact the recognition of our accounting for these sales.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Payment*, which clarifies and provides specific guidance on eight cash flow classification issues with an objective to reduce the current diversity in practice. This guidance is effective for the Company for years beginning after December 15, 2017. The Company has adopted ASU 2016-15 for the year beginning on January 1, 2018. The adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies how companies should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires companies to show the changes in the total of cash, cash equivalents, and restricted cash equivalents in the statement of cash flows. This guidance is effective for the Company for years beginning after December 15, 2017, including interim periods within those years. The Company has adopted ASU 2016-18 for the year beginning on January 1, 2018. The adoption of ASU No. 2016-18 changed the presentation of the consolidated

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

statements of cash flows for the Company to include changes to cash and cash equivalents and restricted cash for all periods presented.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions of assets or business combinations. As a result of the standard, we anticipate that the majority of our hotel purchases will be considered asset purchases as opposed to business combinations and as such the related acquisition costs will be capitalized. However, the determination will be made on a transaction-by-transaction basis. This standard is applied on a prospective basis and, therefore, it does not affect the accounting for any of our previous transactions. This standard was effective for annual periods beginning after December 15, 2017, although early adoption is permitted. The Company has adopted ASU 2017-01 for the year beginning on January 1, 2018.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes most existing lease guidance in U.S. GAAP when it becomes effective. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Company for annual periods in fiscal years beginning after December 15, 2018 and mandates a modified retrospective transition method with the option of restatement of the comparative periods presented in the year of adoption or applying the new standard only in the year of adoption with a cumulative-effect adjustment in the period of adoption. We believe that application of this standard will result in a right of use asset and the related lease liability of less than \$600, although changes in discount rates or other variables may have an effect on the calculation of this recorded amount. We are still evaluating the impact this ASU will have on the disclosures within the notes to the consolidated financial statements. We expect that the adoption of this standard will have minimal impact on our statement of operations. We expect to adopt the new standard on January 1, 2019 and use the effective date as our date of initial application. We also expect to elect all the new standard's available transition practical expedients. Consequently, financial information will not be updated and disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

NOTE 2. INVESTMENT IN HOTEL PROPERTIES

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

| | 2018 | | As of December 31, | | | 2017 | |
|-------------------------------------|---------------|--------------|--------------------|---------------|--------------|------------|--|
| | Held for sale | Held for use | Total | Held for sale | Held for use | Total | |
| Land | \$ 2,304 | \$ 20,200 | \$ 22,504 | \$ 4,083 | \$ 17,766 | \$ 21,849 | |
| Buildings, improvements, vehicle | 4,462 | 206,821 | 211,283 | 19,718 | 176,334 | 196,052 | |
| Furniture and equipment | 719 | 20,554 | 21,273 | 5,177 | 16,126 | 21,303 | |
| Initial franchise fees | 25 | 1,784 | 1,809 | 162 | 1,484 | 1,646 | |
| Construction-in-progress | 7 | 323 | 330 | 52 | 226 | 278 | |
| Investment in hotel properties | 7,517 | 249,682 | 257,199 | 29,192 | 211,936 | 241,128 | |
| Less accumulated depreciation | (3,425) | (19,504) | (22,929) | (11,334) | (10,214) | (21,548) | |
| Investment in hotel properties, net | \$ 4,092 | \$ 230,178 | \$ 234,270 | \$ 17,858 | \$ 201,722 | \$ 219,580 | |

NOTE 3. ACQUISITION OF HOTEL PROPERTIES

During the year ended December 31, 2018, the Company acquired two wholly owned hotel properties. The allocation of the purchase price based on fair value was as follows:

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

| | Date of acquisition | Land | Buildings, improvements, and vehicle | Furniture and equipment | Intangible asset | Total purchase price & acquisition costs (1) | Debt at acquisition (2) | Issuance of common units (3) | Net cash paid |
|------------------------------|---------------------|-----------------|--------------------------------------|-------------------------|------------------|--|-------------------------|------------------------------|-----------------|
| TownePlace Suites Austin, TX | 01/18/2018 | \$ 1,435 | \$ 16,459 | \$ 1,729 | \$ 190 | \$ 19,813 | \$ 19,813 | \$ - | \$ - |
| Home2 Suites Summerville, SC | 02/21/2018 | 998 | 13,485 | 1,854 | 53 | 16,390 | 14,818 | 50 | 1,522 |
| Total | | <u>\$ 2,433</u> | <u>\$ 29,944</u> | <u>\$ 3,583</u> | <u>\$ 243</u> | <u>\$ 36,203</u> | <u>\$ 34,631</u> | <u>\$ 50</u> | <u>\$ 1,522</u> |

(1) Contractual purchase price of \$19,750 and \$16,325 for Austin TownePlace Suites and Summerville Home2 Suites, respectively.

(2) All debt was drawn from the \$150,000 secured revolving credit facility (the "credit facility") at acquisition.

(3) Total issuance of 259,685 common units. Common units may be redeemed at a rate of one common share for 52 common units (see Note 11).

Included in the consolidated statement of operations for the year ended December 31, 2018 are total revenues of \$7,071 and total operating income of \$1,610 which represent the results of operations for the two hotels acquired in 2018 since the date of acquisition.

During the year ended December 31, 2017, the Company acquired seven wholly owned hotel properties. The allocation of the purchase price based on fair value was as follows:

| Hotel | Date of acquisition | Land | Buildings, improvements, and vehicle | Furniture and equipment | Intangible asset | Estimated earn out (1) | Total purchase price | Debt at acquisition (2) | Issuance of common units (3) | Net cash paid |
|------------------------------------|---------------------|-----------------|--------------------------------------|-------------------------|------------------|------------------------|----------------------|-------------------------|------------------------------|-----------------|
| Home2 Suites Lexington, KY | 03/24/2017 | \$ 905 | \$ 14,204 | \$ 1,351 | \$ 40 | \$ - | \$ 16,500 | \$ 16,455 | \$ 45 | \$ - |
| Home2 Suites Round Rock, TX | 03/24/2017 | 1,087 | 14,345 | 1,285 | 33 | - | 16,750 | 16,705 | 45 | - |
| Home2 Suites Tallahassee, FL | 03/24/2017 | 1,519 | 18,229 | 1,727 | 25 | - | 21,500 | 21,442 | 58 | - |
| Home 2 Suites Southaven, MS | 04/14/2017 | 1,311 | 16,792 | 897 | - | - | 19,000 | 9,096 | 52 | 9,852 |
| Hampton Inn & Suites Lake Mary, FL | 06/19/2017 | 1,200 | 16,432 | 1,773 | - | (155) | 19,250 | 19,165 | 85 | - |
| Fairfield Inn & Suites EL Paso, TX | 08/31/2017 | 1,014 | 14,297 | 1,089 | - | - | 16,400 | 16,336 | 64 | - |
| Residence Inn Austin, TX | 08/31/2017 | 1,495 | 19,630 | 1,275 | - | - | 22,400 | 22,314 | 86 | - |
| Total | | <u>\$ 8,531</u> | <u>\$ 113,929</u> | <u>\$ 9,397</u> | <u>\$ 98</u> | <u>\$ (155)</u> | <u>\$ 131,800</u> | <u>\$ 121,513</u> | <u>\$ 435</u> | <u>\$ 9,852</u> |

(1) The Lake Mary purchase price was subject to a post-closing adjustment of up to \$250 to be paid to the seller if the hotel achieved a stipulated hotel net operating income level in 2017. This contingent consideration was included in the purchase price allocation at its estimated fair value on the date of the acquisition. The full amount of \$250 was paid to the seller in December of 2017 with the incremental amount paid over the estimated fair value included in acquisition and terminated transactions expenses.

(2) Debt of \$9,096 with Morgan Stanley Bank of America Merrill Lynch Trust 2014-C18 was assumed related to the Home2 Suites Southaven, MS acquisition. This loan remains outstanding at December 31, 2018. All other debt was drawn from the credit facility at acquisition.

(3) Total issuance of 1,940,451 common units. Common units may be redeemed at a rate of one common share for 52 common units (see Note 11).

Included in the consolidated statement of operations for the year ended December 31, 2017 are total revenues of \$17,455 and total operating income of \$4,508 which represent the results of operations for the seven hotels acquired in 2017 since the date of acquisition.

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

In addition to the property acquired through the Atlanta JV (see Note 5), during the year ended December 31, 2016, the Company acquired one wholly-owned hotel, the Aloft Leawood / Overland Park (Kansas City). The allocation of the purchase price based on fair value was as follows:

| Hotel | Date of acquisition | Land | Buildings, improvements, and vehicles | Furniture and equipment | Total purchase price | Debt at acquisition (1) | Issuance of common units (2) | Net cash paid |
|-------------------|---------------------|----------|---------------------------------------|-------------------------|----------------------|-------------------------|------------------------------|---------------|
| Aloft Leawood, KS | 12/14/2016 | \$ 3,339 | \$ 18,046 | \$ 1,115 | \$ 22,500 | \$ 15,925 | \$ 50 | \$ 6,525 |

- (1) The acquisition was funded with the proceeds of two mortgage loans provided by Great Western Bank totaling \$15,925. These loans remain outstanding at December 31, 2018.
- (2) Total issuance of 213,904 common units. Common units may be redeemed at a rate of one common share for 52 common units (see Note 11).

Included in the consolidated statement of operations for the year ended December 31, 2016 are total revenues of \$222 and total operating income of \$1 which represent the results of operations for the one wholly-owned hotel acquired in 2016 since the date of acquisition.

All purchase price allocations were determined using Level 3 fair value inputs.

Pro Forma Results (Unaudited)

The following condensed pro forma financial data is presented as if the two acquisitions completed during the year ended December 31, 2018 were completed on January 1, 2017 the seven acquisitions completed during 2017 had been completed on January 1, 2016. Supplemental pro forma earnings were adjusted to exclude all acquisition expenses recognized in the periods presented as if these acquisition costs had been incurred in prior periods but were not adjusted to remove the results of hotels sold during the periods. Results for periods prior to the Company's ownership are based on information provided by the prior owners, adjusted for differences in interest expense, depreciation expense, and management fees following the Company's ownership, and have not been audited or reviewed by our independent auditors. All hotels were in operation for all periods presented with the exception of the TownePlace Suites Austin, TX which opened on January 3, 2017 and the Home2 Suites Summerville, SC which opened on July 18, 2017.

The condensed pro forma financial data is not necessarily indicative of what the actual results of operations of the Company would have been assuming the acquisitions had been consummated on January 1, 2017 or 2016, nor do they purport to represent the results of operations for future periods.

| | Year ended December 31, | |
|---|-------------------------|------------|
| | 2018 | 2017 |
| Total revenue | \$ 65,700 | \$ 71,729 |
| Operating income | \$ 8,500 | \$ 7,829 |
| Net earnings (loss) attributable to common shareholders | \$ 5,002 | \$ (7,943) |
| Net earnings (loss) per share - Basic | \$ 0.42 | \$ (0.85) |
| Net earnings (loss) per share - Diluted | \$ 0.41 | \$ (0.85) |

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

NOTE 4: DISPOSITION OF HOTEL PROPERTIES AND DISCONTINUED OPERATIONS

As of December 31, 2018, the Company had one hotel classified as held for sale. As of December 31, 2017, the Company had three hotels held for sale and during 2018 classified an additional two hotels as held for sale. Four of these hotels were sold during 2018. None of the hotels reclassified as held for sale since the Company's 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 (excluding those subsequently reclassified as held for use), the last of which was sold in January 2016, are included in discontinued operations with all other hotels, including those subsequently sold or classified as held for sale, reported in continuing operations.

In 2018, 2017, and 2016, the Company sold four hotels, eight hotels, and 25 hotels, respectively, resulting in total gains of \$5,707, \$7,049, and \$24,256, respectively, of which \$5,707, \$7,049, and \$23,575, respectively, was included in continuing operations.

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 year ended December 31, 2016:

| | Year ended December 31, 2016 |
|---------------------------------------|-------------------------------------|
| Revenue | \$ 6 |
| Hotel and property operations expense | (4) |
| Net gain on dispositions of assets | 681 |
| Interest expense | (5) |
| | \$ 678 |
| Capital expenditures | \$ - |

NOTE 5. INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

On August 1, 2016, the Company entered into a joint venture with Three Wall Capital LLC and certain of its affiliates ("TWC") to acquire an Aloft hotel in downtown Atlanta, Georgia. The Company accounts for the Atlanta JV under the equity method. The Company owns 80% of the Atlanta JV with TWC owning the remaining 20%. The Atlanta JV is comprised of two companies: Spring Street Hotel Property II LLC, of which our operating partnership indirectly owns an 80% equity interest, and Spring Street Hotel OpCo II LLC, of which our TRS indirectly owns an 80% equity interest. TWC owns the remaining 20% equity interest in these two companies.

On August 22, 2016, the Atlanta JV closed on the acquisition of the Atlanta Aloft for a purchase price of \$43,550, subject to working capital and similar adjustments. The purchase price was allocated by the Atlanta JV based on fair value, which was determined using Level 3 fair value inputs, as documented in the table below:

| Hotel | Date of acquisition | Land | Buildings, improvements, and vehicles | Furniture and equipment | Land option (1) | Total purchase price | Debt at acquisition | Net cash paid |
|----------------------|----------------------------|-------------|--|--------------------------------|------------------------|-----------------------------|----------------------------|----------------------|
| Aloft Atlanta, GA | 08/22/2016 | \$ 13,025 | \$ 34,048 | \$ 2,667 | \$ (6,190) | \$ 43,550 | \$ 33,750 | \$ 9,800 |

- (1) The purchase agreement includes a provision which permits the seller to purchase the surface parking lot north of the hotel exercisable for ten years at less than market rates

The purchase price for the Atlanta Aloft was paid with \$9,800 in cash, of which \$7,840 was contributed by Condor and \$1,960 was contributed by TWC, and \$33,750 of proceeds from a term loan secured by the property. Condor additionally contributed \$1,440 and TWC additionally contributed \$360 to the Atlanta JV to cover acquisition costs and to provide working capital to the entity. The term loan, obtained from LoanCore Capital Credit REIT LLC, has an initial term of 24 months with three 12-month extension periods which may be exercised at the Atlanta JV's option subject to

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

certain conditions and fees. The first of these extension options was exercised by the Atlanta JV on September 9, 2018. The interest rate is a floating rate calculated on the one-month LIBOR plus 5.0%, and as a condition at the time of extension, the Atlanta JV purchased a LIBOR cap of 3.0%. The term loan remains outstanding at December 31, 2018 and has a current interest rate of 7.5%. The loan is non-recourse to the Atlanta JV, subject to specified exceptions. The loan is also non-recourse to Condor, except for certain customary carve-outs which are guaranteed by the Company.

Under the Atlanta JV agreement, the Atlanta JV is managed by TWC in accordance with business plans and budgets approved by both partners. Major decisions as detailed in the agreement also require joint approval. Condor may remove TWC as manager of the Atlanta JV and appoint a new manager only upon the occurrence of certain events. The Atlanta Aloft hotel is managed by Boast Hotel Management Company LLC (“Boast”), an affiliate of TWC. The Atlanta JV paid to Boast total management fees of \$333, \$348 and \$110 during the years ended December 31, 2018, 2017, and 2016, respectively.

Net cash flow from the Atlanta JV is distributed each fiscal year first with a 10% preferred return on capital contributions to Condor, second with a 10% preferred return on capital contributions to TWC, and third with any remainder distributed to the partners based on their pro-rata equity ownership. Profits are allocated in the same proportion as net cash flow. Losses are allocated based on pro-rata equity ownership. Cash distributions totaling \$1,662 and \$1,479 were received by the Company from the Atlanta JV during the years ended December 31, 2018 and 2017, respectively. The Atlanta JV agreement also includes buy-sell rights for both members (generally after three years of hotel ownership for Condor and after five years for TWC) and Condor has a purchase option for TWC’s Atlanta JV ownership interest exercisable between the third and fifth anniversary of the hotel closing.

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

The following table represents the total assets, liabilities, and equity, including the Company's share, of the Atlanta JV as of December 31, 2018 and 2017:

| | As of December 31, | |
|---|--------------------|------------------|
| | 2018 | 2017 |
| Investment in hotel properties, net | \$ 46,933 | \$ 48,013 |
| Cash and cash equivalents | 913 | 1,404 |
| Restricted cash, property escrows | 366 | 682 |
| Accounts receivable, prepaid expenses, and other assets | 294 | 176 |
| Total Assets | \$ 48,506 | \$ 50,275 |
| Accounts payable, accrued expenses, and other liabilities | \$ 1,375 | \$ 1,019 |
| Land option liability | 6,190 | 6,190 |
| Long-term debt, net of deferred financing costs | 33,608 | 33,382 |
| Total Liabilities | 41,173 | 40,591 |
| Condor equity | 5,866 | 7,747 |
| TWC equity | 1,467 | 1,937 |
| Total Equity | 7,333 | 9,684 |
| Total Liabilities and Equity | \$ 48,506 | \$ 50,275 |

The table below provides the components of net earnings (loss), including the Company's share of the Atlanta JV, for the years ended December 31, 2018, 2017 and 2016:

| | Year ended December 31, | | |
|---------------------------------------|-------------------------|---------------|-----------------|
| | 2018 | 2017 | 2016 |
| Revenue | | | |
| Room rentals and other hotel services | \$ 11,888 | \$ 11,582 | \$ 3,703 |
| Operating Expenses | | | |
| Hotel and property operations | 7,855 | 7,585 | 2,457 |
| Depreciation and amortization | 1,444 | 1,425 | 471 |
| Acquisition | - | - | 299 |
| Total operating expenses | 9,299 | 9,010 | 3,227 |
| Operating income | 2,589 | 2,572 | 476 |
| Net loss on disposition of assets | (197) | (8) | (2) |
| Net loss on derivative | (27) | (3) | (6) |
| Interest expense | (2,637) | (2,323) | (773) |
| Net earnings (loss) | \$ (272) | \$ 238 | \$ (305) |
| Condor allocated earnings (loss) | \$ (218) | \$ 190 | \$ (244) |
| TWC allocated earnings (loss) | (54) | 48 | (61) |
| Net earnings (loss) | \$ (272) | \$ 238 | \$ (305) |

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

NOTE 6. LONG-TERM DEBT

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

| Lender | Balance at December 31, 2018 | Interest rate at December 31, 2018 | Maturity | Amortization provision | Properties encumbered at December 31, 2018 | Balance at December 31, 2017 |
|---|---|---|-----------------|-----------------------------------|---|---|
| Fixed rate debt | | | | | | |
| Morgan Stanley Bank of America Merrill Lynch Trust 2014-C18 | \$ 8,817 | 4.54% | 08/2024 | 25 years | 1 | \$ 8,987 |
| Great Western Bank (1) | 13,615 | 4.33% | 12/2021 (5) | 25 years | 1 | 13,950 |
| Great Western Bank (1) | 1,171 | 4.33% | 12/2021 (5) | 7 years | - | 1,380 |
| Total fixed rate debt | <u>23,603</u> | | | | | <u>24,317</u> |
| Variable rate debt | | | | | | |
| Wells Fargo | 26,048 | 4.74% (2) | 11/2022 (6) | 30 years | 3 | 26,465 |
| KeyBank credit facility (3) | 89,487 | 5.47% (4) | 03/2020 (7) | Interest only | 10 | 73,303 |
| Total variable rate debt | <u>115,535</u> | | | | <u>15</u> | <u>99,768</u> |
| Total long-term debt | \$ 139,138 | | | | | \$ 124,085 |
| Less: Deferred financing costs | <u>(2,208)</u> | | | | | <u>(3,504)</u> |
| Total long-term debt, net of deferred financing costs | 136,930 | | | | | 120,581 |
| Less: Long-term debt related to hotel properties held for sale, net of deferred financing costs of \$18 and \$333 | <u>(1,120)</u> | | | | | <u>(9,484)</u> |
| Long-term debt related to hotel properties held for use, net of deferred financing costs of \$2,190 and \$3,171 | <u>\$ 135,810</u> | | | | | <u>\$ 111,097</u> |

(1) Both loans are collateralized by Aloft Leewood.

(2) Variable rate of 30-day LIBOR plus 2.39%, effectively fixed at 4.44% after giving effect to interest rate swap (see Note 8).

(3) \$150,000 credit facility that includes an accordion feature that would allow the credit facility to be increased to \$400,000 with additional lender commitments. Available borrowing capacity under the credit facility is based on a borrowing base formula for the pool of hotel properties securing the facility. Total unused availability under this credit facility was \$7,424 at December 31, 2018. The commitment fee on unused facility is 0.20%.

(4) Borrowings under the facility accrue interest based on a leverage-based pricing grid, at the Company's option, at either LIBOR plus a spread ranging from 2.25% to 3.00% (depending on leverage) or a base rate plus a spread ranging from 1.25% to 2.00% (depending on leverage); 30-day LIBOR for \$50,000 notional capped at 2.5% after giving effect to market rate cap (see Note 8).

(5) Term may be extended for additional two years subject to interest rate adjustments.

(6) Two one-year extension options subject to the satisfaction of certain conditions.

(7) Two one-year extension options available subject to certain conditions including the completion of specific capital achievements. On March 8, 2019, the credit facility was amended to extend its maturity date to April 1, 2020. Prior to this date, the Company anticipates refinancing the credit facility with its existing lenders or other lenders. The Company believes it will be able to refinance this debt on similar terms, however, we cannot guarantee we will be successful in our efforts to refinance or repay this maturity debt.

At December 31, 2018, we had long-term debt of \$138,000 associated with assets held for use with a weighted average term to maturity of 2.1 years and a weighted average interest rate of 5.15%. Of this total, at December 31, 2018, \$23,604 was fixed rate debt with a weighted average term to maturity of 1.9 years and a weighted average interest rate of 4.41% and \$114,396 was variable rate debt with a weighted average term to maturity of 2.9 years and a weighted average interest rate of 5.30%. At December 31, 2017, we had long-term debt of \$114,269 associated with assets held for use with a weighted average term to maturity of 3.2 years and a weighted average interest rate of 4.34%. Of this total, at December 31, 2017, \$24,317 was fixed rate debt with a weighted average term to maturity of 2.4 years and a weighted average interest rate of 4.41% and \$89,952 was variable rate debt with a weighted average term to maturity of 4.1 years and a weighted average interest rate of 4.32%.

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

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

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:

| | Held for sale | Held for use | Total |
|------------|-----------------|-------------------|-------------------|
| 2019 | \$ - | \$ 1,136 | \$ 1,136 |
| 2020 | 1,138 | 89,580 | 90,718 |
| 2021 | - | 14,344 | 14,344 |
| 2022 | - | 24,886 | 24,886 |
| 2023 | - | 214 | 214 |
| Thereafter | - | 7,840 | 7,840 |
| Total | <u>\$ 1,138</u> | <u>\$ 138,000</u> | <u>\$ 139,138</u> |

Financial Covenants

We are required to satisfy various financial covenants within our debt agreements, including the following financial covenants within our credit facility:

- Leverage Ratio: The ratio of consolidated total indebtedness to consolidated total asset value cannot exceed 60%. Commencing on April 1, 2020, the foregoing leverage ratio will no longer be applicable, and in lieu thereof, the ratio of consolidated total indebtedness to adjusted consolidated earnings before interest, taxes, depreciation, and amortization (“EBITDA”) for the most recently ended four fiscal quarters cannot exceed 6.25 to 1.
- Secured Leverage Ratio: The ratio of consolidated secured indebtedness (excluding the credit facility) to consolidated total asset value cannot exceed 40%.
- Fixed Charge Coverage Ratio: The ratio of adjusted consolidated EBITDA for the most recently ended four fiscal quarters to consolidated fixed charges for the most recently ended four fiscal quarters cannot be less than 1.50 to 1.
- Tangible Net Worth: Consolidated tangible net worth cannot be less than \$55 million plus 80% of net offering proceeds.
- Unhedged Variable Rate Debt: Consolidated unhedged variable rate debt cannot exceed 25% of consolidated total asset value.
- Distributions: The Company is permitted to make distributions during any period of four fiscal quarters in an aggregate amount of up to 95% of funds available for distribution.

Certain of the terms used in the foregoing descriptions of the financial covenants within our credit facility have the meanings given to them in the credit facility, and certain of the financial covenants are subject to pro forma adjustments for acquisitions and sales of hotel properties and for specific capital events.

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 credit facility contains cross-default provisions which would allow the lenders under our credit facility 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 a result of ongoing renovations at the Aloft Leawood property, the Company did not meet its required quarterly debt service coverage ratio on that property-specific debt at December 31, 2018. On March 8, 2019 Great Western Bank waived the required quarterly debt service coverage ratio for the collateralized debt of the Leawood Aloft for December 31, 2018 and March 31, 2019, and modified the required ratio for subsequent periods.

As of December 31, 2018, we are not in default of any of our loans.

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

NOTE 7: CONVERTIBLE DEBT AT FAIR VALUE

As part of an agreement entered into on March 16, 2016 (the “Exchange Agreement”) with Real Estate Strategies, L.P. (“RES”, which also includes affiliated entities) (see Note 10), the Company issued to RES a Convertible Promissory Note (the “Note”), bearing interest at 6.25% per annum, in the principal amount of \$1,012 initially convertible into shares of Series D Preferred Stock, which could be subsequently converted into 97,269 shares of common stock. Following the conversion of all of the outstanding Series D Preferred Stock into common stock and the issuance of the Series E Preferred Stock on March 1, 2017, the Note was amended to be convertible directly into 97,269 shares of common stock at any time at the option of RES or automatically when the Series E Preferred Stock is required to be converted or is redeemed in whole (see Note 10). The Note is not convertible to the extent that a conversion would cause RES, together with its affiliates, to beneficially own more than 49% of the voting stock of the Company at the time of the conversion. Any conversion reduces the principal amount of the Note proportionally.

The Company has made an irrevocable election to record this Note in its entirety at fair value utilizing the fair value option available under U.S. GAAP in order to more accurately reflect the economic value of this Note. As such, gains and losses on the Note are included in net gain on derivatives and convertible debt within net earnings each reporting period. Gains (losses) related to this Note were recognized totaling \$69, \$246 and (\$303) during the years ended December 31, 2018, 2017, and 2016, respectively. The fair value of the Note is determined using a trinomial lattice-based model, which is a generally accepted computational model typically used for pricing options and is considered a Level 3 fair value measurement. The fair value of the Note on the date of issuance was determined to be equal to its principal amount. Interest expense related to this Note is recorded separately from other changes in its fair value within interest expense each period.

The following table represents the difference between the fair value and the unpaid principal balance of the Note as of December 31, 2018:

| | Fair value as of December 31, 2018 | Unpaid principal balance as of December 31, 2018 | Fair value carrying amount (over)/under unpaid principal |
|------------------------|---------------------------------------|--|--|
| 6.25% Convertible Debt | \$ 1,000 | \$ 1,012 | \$ 12 |

NOTE 8: 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, 2018, the Company’s convertible debt (see Note 7) and certain derivative instruments were the only financial instruments measured in the consolidated 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 in 2018, 2017, and 2016 (see Note 3), the acquisition accounting performed by the Atlanta JV in 2016 (see Note 5), in accounting for the equity transactions that occurred in March 2016 and 2017 (see Note 10), in the valuation of stock-based compensation grants (see Note 12), and in the assessment of impaired and potentially impaired hotels during the years ended December 31, 2017, 2016, and 2015.

Derivative Instruments

Currently, the Company uses derivatives, such as interest rate swaps and caps, to manage its interest rate risk. 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 this credit risk by

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

transacting with major creditworthy financial institutions. These interest rate positions at December 31, 2018 and 2017 are as follows:

| Associated debt | Type | Terms | Effective Date | Maturity Date | Notional amount at December 31, 2018 | Notional amount at December 31, 2017 |
|-----------------|------|---|----------------|---------------|--------------------------------------|--------------------------------------|
| Wells Fargo | Swap | Swaps 30-day LIBOR for fixed rate of 2.053% | 11/2017 | 11/2022 | \$ 26,048 (1) | \$ 26,465 (1) |
| Credit facility | Cap | Caps 30-day LIBOR at 2.50% | 03/2017 | 03/2019 | \$ 50,000 | \$ 50,000 |

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

Additionally, prior to the execution of the Exchange Agreement (see Note 10) on March 16, 2016 which extinguished the instrument, the Company was required to bifurcate and include on the balance sheet at fair value the embedded conversion option in the 6.25% Series C Cumulative Convertible Preferred Stock (“Series C Preferred Stock”) due to the presence of an antidilution provision that required an adjustment in the common stock conversion ratio should subsequent issuances of the Company’s common stock be issued below the instrument’s original conversion price.

Similarly, prior to the execution of the Exchange Agreement, the terms of the common stock warrants issued to the holders of the Series C Preferred Stock (see Note 10) also included an antidilution provision that required a reduction in the warrant’s exercise price should the conversion ratio of the Series C Preferred Stock be adjusted due to antidilution provisions. Accordingly, the warrants did not qualify for equity classification, and, as a result, the fair value of the derivative was shown as a derivative liability on the balance sheets. With the execution of the Exchange Agreement, this provision of these warrants was effectively eliminated and the conversion price was locked permanently. Following this modification of terms, the warrants qualified for equity classification and were reclassified to additional paid-in capital at their fair value of \$611 on the date of the modification.

The fair value of these derivative liabilities recognized in connection with the Series C Preferred Stock were determined using 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 minimize standard error and is considered a Level 3 fair value measurement.

Included in the Series E Preferred Stock issued on March 1, 2017 is a redemption right that allows the Company to redeem up to a total of 490,250 shares of Series E Preferred Stock for specific percentages of its liquidation preference (see Note 10). This option requires bifurcation and was determined to be an asset with a fair value on the date of issuance of \$150 using a trinomial lattice-based model, considered a Level 3 fair value measurement.

All derivatives recognized by the Company are reported as either derivative assets or liabilities on the balance sheets and are adjusted to their fair value at each reporting date. All gains and losses on derivative instruments are included in net gain on derivatives and convertible debt and with the exception of realized gains and losses related to the interest rate instruments, which are included in interest expense on the statements of operations. Net gains of \$248, \$190, and \$6,680 were recognized related to derivative instruments for the years ended December 31, 2018, 2017, and 2016, respectively.

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

Recurring Fair Value Measurements

The following tables provide the fair value of the Company's financial assets and (liabilities) carried at fair value and measured on a recurring basis:

| | Fair value at | | | |
|---|-------------------|-------------|---------------|-----------------|
| | December 31, 2018 | Level 1 | Level 2 | Level 3 |
| Interest rate derivatives | \$ 350 | \$ - | \$ 350 | \$ - |
| Series E Preferred embedded redemption option | 289 | - | - | 289 |
| Convertible debt | (1,000) | - | - | (1,000) |
| Total | <u>\$ (361)</u> | <u>\$ -</u> | <u>\$ 350</u> | <u>\$ (711)</u> |

| | Fair value at | | | |
|---|-------------------|-------------|--------------|-----------------|
| | December 31, 2017 | Level 1 | Level 2 | Level 3 |
| Interest rate derivatives | \$ 77 | \$ - | \$ 77 | \$ - |
| Series E Preferred embedded redemption option | 314 | - | - | 314 |
| Convertible debt | (1,069) | - | - | (1,069) |
| Total | <u>\$ (678)</u> | <u>\$ -</u> | <u>\$ 77</u> | <u>\$ (755)</u> |

There were no transfers between levels during the years ended December 31, 2018, 2017, or 2016.

The following tables present 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 gains and losses recorded in the statements of operations during the periods:

| | Year ended December 31, | | | | | |
|---|---|-------------------|-----------------|---|-------------------|-----------------|
| | 2018 | | | 2017 | | |
| | Series E Preferred embedded redemption option | Convertible debt | Total | Series E Preferred embedded redemption option | Convertible debt | Total |
| Fair value, beginning of period | \$ 314 | \$ (1,069) | \$ (755) | \$ - | \$ (1,315) | \$ (1,315) |
| Net gains (losses) recognized in earnings | (25) | 69 | 44 | 164 | 246 | 410 |
| Purchase and issuances | - | - | - | 150 | - | 150 |
| Sales and settlements | - | - | - | - | - | - |
| Gross transfers into Level 3 | - | - | - | - | - | - |
| Gross transfers out of Level 3 | - | - | - | - | - | - |
| Fair value, end of period | <u>\$ 289</u> | <u>\$ (1,000)</u> | <u>\$ (711)</u> | <u>\$ 314</u> | <u>\$ (1,069)</u> | <u>\$ (755)</u> |
| Total unrealized gains (losses) during the period included in earnings related to instruments held at end of period | \$ (25) | \$ 69 | \$ 44 | \$ 164 | \$ 246 | \$ 410 |

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 risks. 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. Both the carrying value and the estimated fair value of the Company's long-term debt, excluding convertible debt which is presented in the balance sheets at fair value, are presented in the table below net of deferred financing costs.

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

| | <u>Carrying value at December 31,</u> | | <u>Estimated fair value at December 31,</u> | |
|---------------|---------------------------------------|-------------------|---|-------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Held for use | \$ 135,810 | \$ 111,097 | \$ 134,773 | \$ 110,731 |
| Held for sale | 1,120 | 9,484 | 1,120 | 9,484 |
| Total | \$ 136,930 | \$ 120,581 | \$ 135,893 | \$ 120,215 |

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 operating results and 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 fair value measurements. The amount of impairment and recovery of previously recorded impairment recognized in the years ended December 31, 2018, 2017, and 2016 is shown in the tables below:

| | <u>Year ended December 31,</u> | | | | | |
|--|--------------------------------|---------------------|------------------|----------------------------|------------------|-------------------|
| | 2018 | | 2017 | | 2016 | |
| | Number of hotels | Impairment recovery | Number of hotels | Impairment (loss) recovery | Number of hotels | Impairment (loss) |
| <u>Continuing Operations:</u> | | | | | | |
| Sold hotels: | | | | | | |
| Impairment loss | - | - | 3 | (2,231) | 5 | (1,477) |
| Recovery of impairment | 1 | 93 | 2 | 80 | - | - |
| Total net impairment (loss) recovery: | 1 | \$ 93 | 5 | \$ (2,151) | 5 | \$ (1,477) |

NOTE 9. COMMON STOCK

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

On January 24, 2017, the Company exchanged 23,160 warrants (the "New Warrants") to purchase common stock of the Company for 576,923 warrants (the "Old Warrants") held by RES. The number of New Warrants issued in exchange for the Old Warrants equaled the number of shares of common stock issuable upon exercise of the Old Warrants pursuant to a cashless exercise provisions of the Old Warrants. The New Warrants were exercisable for 23,160 shares of common stock, had an exercise price of \$0.0065 for each common share, and would have expired on January 24, 2019. On the date of the exchange, the New Warrants had a fair value in excess of the Old Warrants of \$289, which is reflected as equity transactions expense and an increase in additional paid-in capital as the exchange is assumed to be equivalent to the modification of an equity classified instrument. The New Warrants were exercised in full on September 28, 2017.

On February 28, 2017, the holders of the Series D Preferred Stock voluntarily converted their shares into 6,004,957 shares of common stock at \$10.40 per share pursuant to the terms of the preferred stock (see Note 10).

Effective on March 15, 2017, the Company effected a reverse stock split of its common stock at a ratio of 1-for-6.5. No fractional shares of common stock were issued as fractional shares were settled in cash. A total of 73 shares were settled for \$1. Impacted amounts and share information included in the consolidated financial statements and notes thereto have been adjusted for the stock split as if such stock split occurred on the first day of the periods presented.

On March 29, 2017, the Company sold in an underwritten public offering 4,772,500 shares of its common stock, including 622,500 shares issued pursuant to the full exercise of an option to purchase additional shares of common stock granted to the underwriters, at a public offering price per share of \$10.50. Net proceeds, after the payment of related expenses, from this offering totaled \$45,850.

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

The Company's common stock began trading on the NYSE American under its current symbol "CDOR" beginning at the open of market trading on July 21, 2017. The Company's common stock previously traded on the NASDAQ Stock Market.

On September 20, 2017, the Company entered into an equity distribution agreement with KeyBanc Capital Markets Inc. and BMO Capital Markets Corp. (collectively, the "Sales Agents"), pursuant to which we may sell, from time to time, up to an aggregate sales price of \$50,000, subject to decrease in compliance with General Instruction I.B.6 of Registration Statement on Form S-3, of shares of our common stock pursuant to a prospectus supplement we filed with the Securities and Exchange Commission ("SEC") through the Sales Agents acting as sales agent and/or principal, through an at-the-market offering program (our "ATM program"). Pursuant to Instruction I.B.6 to Registration Statement on Form S-3, we may not sell more than the equivalent of one-third of our public float during any 12 consecutive months so long as our public float is less than \$75,000.

During the year ended December 31, 2017, we sold 169,004 shares of common stock under the ATM program at an average sales price of \$10.15 per share for gross proceeds totaling \$1,715 and net proceeds of \$1,619. During the year ended December 31, 2018, we sold 28,474 shares of common stock under the ATM program at an average sales price of \$10.40 per share, for gross proceeds totaling \$296 and net proceeds totaling \$260. Since the inception of the ATM program, we have sold 197,478 shares of common stock at an average sales price of \$10.18 per share for gross proceeds totaling \$2,011 and net proceeds totaling \$1,879.

NOTE 10. PREFERRED STOCK

On March 16, 2016, the Company entered into a series of agreements providing for:

- the issuance and sale of the Company's 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 the Company's outstanding Series C Preferred Stock for Series D Preferred Stock; and
- the cash redemption of all of the Company's outstanding 8% Series A Cumulative Preferred Stock ("Series A Preferred Stock") and 10% Series B Cumulative Preferred Stock ("Series B Preferred Stock").

In connection with these transactions, the Company and SREP entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") dated March 16, 2016 pursuant to which the Company issued and sold 3,000,000 shares of Series D Preferred Stock to SREP on the March 16, 2016 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 the purpose 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 the Company.

Simultaneously, the Company entered into 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, 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 (such that RES, IRSA Inversiones y Representaciones Sociedad Anónima ("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 convertible promissory note, bearing interest at 6.25% per annum, in the principal amount of \$1,012 (see Note 7).

Pursuant to the Stock Purchase Agreement, on April 15, 2016, the Company redeemed all of the outstanding Series A and Series B Preferred Stock, in accordance with redemption notices issued on March 16, 2016, as follows:

- all 803,270 outstanding shares of the Series A Preferred Stock 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 for a total redemption price of \$9,707; and

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

- all 332,500 outstanding shares of the Series B Preferred Stock at the redemption price of \$25.00 per share plus \$6.354167 per share in accrued and unpaid dividends through the redemption date for a total redemption price of \$10,425.

On February 28, 2017, the holders of the Series D Preferred Stock voluntarily converted their shares into 6,004,957 shares of common stock at \$10.40 per share pursuant to the terms of the preferred stock. The terms of the Series D Preferred Stock provided for automatic conversion following certain future common stock offerings, and also provided for potential additional payments to the holders depending on the sales price of common stock in the offerings. As a result of the voluntary conversion, the holders are no longer entitled to the potential payments. To induce the holders of the Series D Preferred Stock to voluntarily convert their shares, the Company issued the holders 925,000 shares of a new series of preferred stock, the Series E Preferred Stock.

The effect of these transactions on the Company's preferred stock and the key terms of the remaining series of the Company's preferred stock are discussed individually below.

Series A Preferred Stock

On December 30, 2005, the Company offered and sold 1,521,258 shares of Series A Preferred Stock. At December 31, 2015, 803,270 shares of Series A Preferred Stock remained outstanding until the completion of the redemption on April 15, 2016.

Dividends on the Series A Preferred Stock were cumulative and 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 was able to 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 accumulated and bore additional dividends at 8%, compounded monthly.

The difference between the recorded value of the Series A Preferred Stock prior to the issuance of the redemption notice and the redemption value of the Series A Preferred Stock plus related expenses, a total of \$2,326, was recorded as a reduction of accumulated deficit during the year ended December 31, 2016 as the amount is considered a deemed dividend on the Series A Preferred Stock. Of this amount, \$874 was recorded as a reduction of net earnings attributable to common shareholders as the portion of this deemed dividends that was in excess of preferred dividends deducted to arrive at net earnings attributable to common shareholders in previous periods.

Series B Preferred Stock

At December 31, 2015, there were 332,500 shares of Series B Preferred Stock outstanding, originally sold on June 3, 2008, which remained outstanding until the completion of the redemption on April 15, 2016.

Dividends on the Series B Preferred Stock were 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. The Company was able to 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 would be redeemed for cash at a redemption price of \$25.00 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 B Preferred Stock to preserve capital and improve liquidity. Unpaid dividends on the Series B Preferred Stock did not bear interest.

The difference between the recorded value of the Series B Preferred Stock prior to the issuance of the redemption notice and the redemption value of the Series B Preferred Stock, a total \$2,781, was recorded as a reduction of accumulated deficit during the year ended December 31, 2016 as the amount is considered a deemed dividend on the

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

Series B Preferred Stock. Of this amount, \$911 was recorded as a reduction of net earnings attributable to common shareholders as the portion of this deemed dividend that was in excess of preferred dividends deducted to arrive at net earnings attributable to common shareholders in previous periods.

Series C Preferred Stock

The Company entered into a Purchase Agreement dated November 16, 2011 for the issuance and sale of Series C Preferred Stock under a private transaction with 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 Preferred Stock. All of the Series C Preferred Stock remained outstanding prior to the execution of the Exchange Agreement on March 16, 2016.

Each of the 3,000,000 shares of Series C Preferred Stock was 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, which was equal to a rate of 0.9615385 shares of common stock for each share of Series C Preferred Stock. A holder of Series C Preferred Stock would 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.

Each share of Series C Preferred Stock was entitled to a dividend of \$0.625 per year payable in equal quarterly dividends. Commencing with dividends due on December 31, 2013, the Company suspended payment of dividends on its Series C Preferred Stock to preserve capital and improve liquidity. Unpaid dividends accumulated and bore additional dividends at 6.25%, compounded quarterly.

The Series C Preferred Stock voted with the common stock as one class, subject to certain voting limitations. For any vote, the voting power of the Series C Preferred Stock was equal to the lesser of: (a) 0.12096 vote per share or (b) an amount of votes per share such that the vote of all shares of Series C 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.

On March 16, 2016, the Series C Preferred Stock was extinguished under the Exchange Agreement discussed above. Upon this extinguishment, the difference between the recorded value of the Series C Preferred Stock prior to the exchange and the fair value of the consideration received in the exchange, a total of \$20,366, was recorded as a reduction of accumulated deficit as the amount is considered a deemed dividend on the Series C Preferred Stock. Of this amount, \$15,873 was recorded as a reduction of net earnings attributable to common shareholders as the portion of this deemed dividend that was in excess of preferred dividends deducted to arrive at net earnings attributable to common shareholders in previous periods.

Series D Preferred Stock

Following the execution of the Stock Purchase Agreement and Exchange Agreement on March 16, 2016, there were 6,245,156 shares of Series D Preferred Stock outstanding at December 31, 2016.

The Series D Preferred stockholders ranked senior to the Company's common stock and any other preferred stock issuances and received preferential cumulative cash dividends at a rate of 6.25% per annum, 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, of the \$10.00 face value per share. Dividends on the Series D Preferred Stock accrued whether or not the Company had earnings, whether or not there were funds legally available for the payment of such dividends, whether or not such dividends were declared, and whether or not such dividends were prohibited by agreement. Whenever the dividends on the Series D Preferred Stock were in arrears for four consecutive quarters, then upon notice by holders of in the aggregate not less than 40% of the outstanding Series D Preferred Stock, the Company would (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

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

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 had been fully paid. Dividends on the Series D Preferred Stock were paid when due throughout the life of the instrument.

Each share of Series D Preferred Stock was convertible, at the option of the holder, at any time into a number of shares of common stock determined by dividing the conversion price of \$10.40 into an amount equal to the \$10.00 face value per share plus accrued and unpaid dividends, if any. The conversion price was subject to anti-dilution adjustments upon the occurrence of stock splits and stock dividends. Each outstanding share of Series D Preferred Stock would be converted into a number of shares of common stock determined by dividing the conversion price of \$10.40 into the \$10.00 face value per share, which is equal to a rate of 0.9615385 shares of common stock for each share of Series D Preferred 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, all with certain minimum prices per share and a potential make whole payment required in certain scenarios) without any further action by the holders of such shares or the Company.

The Series D Preferred Stock was 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 September 30, 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 equal to \$14.00 in cash plus accrued and unpaid dividends. Once this right had been exercised and the Company had been notified, the dividend rate on the Series D Preferred Stock after September 30, 2021 would increase from 6.25% per annum to 12.5% per annum. The holders of Series D Preferred Stock voted 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 entitled 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.

The fair value of the Series D Preferred Stock was determined to be equal to its face value on the date of issuance.

As discussed above, on February 28, 2017, the holders of the Series D Preferred Stock voluntarily converted their shares into 6,004,957 shares of common stock at \$10.40 per share pursuant to the terms of the preferred stock. At the time of conversion, the Series D holders were granted \$9,250 of newly created Series E Preferred Stock.

Series E Redeemable Convertible Preferred Stock

Following the voluntary conversion of the Series D Preferred Stock on February 28, 2017, the only shares of preferred stock outstanding are 925,000 shares of Series E Preferred Stock.

The Series E Preferred Stock ranks 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, payable quarterly of the \$10.00 face value per share. If the Company fails to pay a dividend then during the period that dividends are not paid, the dividend rate increases to 9.50% per annum. Dividends on the Series E 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.

Each share of Series E Preferred Stock is convertible, at the option of the holder, at any time on or after February 28, 2019, into a number of shares of common stock determined by dividing the conversion price of \$13.845 into an amount equal to the \$10.00 face value per share plus accrued and unpaid dividends, if any. Upon liquidation, each

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

share of Series E Preferred Stock is entitled to \$10.00 per share and accrued and unpaid dividends. The conversion price is subject to anti-dilution adjustments upon the occurrence of stock splits and stock dividends. Following a specific equity offering or offerings, from time to time a number of shares of Series E Preferred Stock automatically converts into common stock if the common stock trades at 120% of the conversion price for 60 trading days, and the number of shares converted will be determined by certain trading volumes measures.

The Company has rights to redeem up to 490,250 shares of the Series E Preferred Stock at prices from 110% to 130% of its liquidation value. The holders have put rights commencing March 16, 2021 to put the Series E Preferred Stock to the Company at 130% of its liquidation preference, which the Company can satisfy with cash or common stock. The Series E Preferred Stock votes as a class on matters generally affecting the Series E Preferred Stock, and as long as 434,750 shares of Series E Preferred Stock (47% of the originally issued shares of Series E Preferred Stock) remain outstanding, then 75% approval of the Series E Preferred Stock will be required to approve merger, consolidation, liquidation or winding up of the Company, related party transactions exceeding \$120, payment of dividends on common stock except from funds from operations or to maintain REIT status, the grant of exemptions from the Company's charter limitation on ownership of 9.9% of any class or series of its securities (exclusive of persons currently holding exemptions), issuance of preferred stock or commitment or agreement to do any of the foregoing.

The Series E Preferred Stock was determined to have a fair value of \$9,900 on the date of issuance as measured using a trinomial lattice-based model. From this value, the embedded redemption option (see Note 8), which was determined to be an asset with a fair value on the date of issuance of \$150 using the same model, was bifurcated and will be accounted for at fair value at each period end. These are considered Level 3 fair value measurements. The issuance of the Series E Preferred Stock is considered an inducement to convert the Series D Preferred Stock to common stock and as such, its fair value at issuance, plus related expenses totaling \$1,210 in the year ended December 31, 2017, are reflected as a reduction of retained earnings and an increase in dividends declared and undeclared and in kind dividends deemed on preferred stock.

Impact of Preferred Stock on Net Earnings (Loss) Attributable to Common Shareholders

The components of dividends declared and undeclared and in kind dividends deemed on preferred stock are as follows:

| | Year ended December 31, | | |
|---|--------------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Preferred A dividends accrued at stated rate | \$ - | \$ - | \$ 222 |
| Preferred A additional deemed dividends upon redemption | - | - | 652 |
| Preferred B dividends accrued at stated rate | - | - | 243 |
| Preferred B additional deemed dividends upon redemption | - | - | 668 |
| Preferred C dividends accrued at stated rate | - | - | 455 |
| Preferred C additional deemed dividends at exchange | - | - | 15,418 |
| Preferred D dividends accrued at stated rate | - | 650 | 3,090 |
| Preferred D inducement to convert | - | 11,110 | - |
| Preferred E dividends accrued at stated rate | 578 | 483 | - |
| Dividends declared and undeclared and in kind dividends deemed on preferred stock | <u>\$ 578</u> | <u>\$ 12,243</u> | <u>\$ 20,748</u> |

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

NOTE 11. NONCONTROLLING INTEREST OF COMMON UNITS IN THE OPERATING PARTNERSHIP

At December 31, 2018 and 2017, 3,281,124 and 4,550,242 of the operating partnership's common units were outstanding, respectively, all of which were held by limited partners. All LTIP units previously were cancelled on June 28, 2017 (see Note 12). The total redemption value for the common units was \$435 and \$871 at December 31, 2018 and 2017, respectively. Our ownership interest in the operating partnership as of December 31, 2018 and 2017 was 99.5% and 99.3%, respectively.

Each limited partner of the operating partnership may, subject to certain limitations, require that the operating partnership 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 the operating partnership. 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 52 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.

During the year ended December 31, 2018, 1,528,803 common units were redeemed for cash totaling \$298. No common units were redeemed in 2017 or 2016.

NOTE 12. STOCK-BASED COMPENSATION

The Company previously had a 2006 Stock Plan which had been approved by the Company's shareholders. The 2006 Stock Plan authorized the grant of stock options, stock appreciation rights, restricted stock, and stock bonuses for up to 9,615 shares of common stock. The 2006 Stock Plan expired on December 31, 2015. As a replacement for the 2006 Stock Plan, the Board of Directors adopted the Condor 2016 Stock Plan, which was approved by the Company's shareholders at the annual shareholders meeting on June 15, 2016. The 2016 Stock Plan authorizes the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, deferred stock units, and other forms of stock-based compensation. The maximum number of shares of the Company's common stock that may be issued under the 2016 Stock Plan is 761,538 following an amendment to the plan to increase the number of available shares by 300,000 that was approved by shareholders on May 17, 2018 at the annual meeting of shareholders. As of December 31, 2018, there were 601,695 common shares available for issuance under the 2016 Stock Plan.

Options

At December 31, 2016, the Company had a total of 865 vested stock options outstanding with a weighted average exercise price of \$48.945 per share. These options expired unexercised on July 15, 2017.

Service Condition Share Awards

From time to time, the Company awards restricted shares of common stock to employees, officers, and members of the Board of Directors under the 2016 Stock Plan. These shares generally vest ratably over five years for employees and officers and three years for members of the Board of Directors based on continued service or employment. Dividends paid on these restricted shares during the vesting period are not forfeited in the event that the shares fail to vest. The following table presents a summary of the service condition unvested share activity for the years ended December 31, 2018, 2017, and 2016:

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

| | Shares | Weighted-average grant date fair value |
|-------------------------------|---------------|---|
| Unvested at December 31, 2015 | 160 | \$ 47.32 |
| Granted | - | \$ - |
| Vested | (160) | \$ 47.32 |
| Forfeited | - | \$ - |
| Unvested at December 31, 2016 | - | \$ - |
| Granted | 96,286 | \$ 10.54 |
| Vested | (234) | \$ 10.60 |
| Forfeited | (220) | \$ 10.54 |
| Unvested at December 31, 2017 | 95,832 | \$ 10.54 |
| Granted | 23,191 | \$ 10.28 |
| Vested | (30,879) | \$ 10.56 |
| Forfeited | (11,644) | \$ 10.33 |
| Unvested at December 31, 2018 | <u>76,500</u> | <u>\$ 10.48</u> |

The fair value of the service condition unvested share awards was determined based on the closing price of the Company's common stock on the grant date.

Market Based Share Awards

Pursuant to an amendment of an employment agreement on June 28, 2017, an executive officer may earn shares of common stock if certain market share prices of common stock are attained. Any such shares, if earned, will be issued under the 2016 Stock Plan or another shareholder approved plan. The executive officer will earn and be issued 36,692 common shares each time stock market price targets of \$11.00 to \$18.00 (in one dollar increments) per common share are first achieved prior to March 31, 2022 based on the weighted-average common stock price for 60 consecutive trading days. Additionally, the shares vest to the extent of the value received per share of common stock in connection with a change in control, with the payout in such case to be prorated for the portion of the value above a stock market price target but below the next stock market price target.

The compensation cost related to awards that are contingent upon achieving a market based criteria is measured at the fair value of the award on the date of grant using the Monte Carlo simulation, including consideration of the market criteria, and amortized on a straight line basis over the derived performance period which is also estimated using this model.

The grant date fair value of this award, including additional value assessed at the time of subsequent amendment of the award, totaling \$1,380, was determined using the following assumptions:

| | | |
|-------------------------|---|--------|
| Volatility | | 25.0 % |
| Stock price | \$ | 10.60 |
| Dividend yield | | 7.4 % |
| Risk free interest rate | 0.89% - 1.81% based upon expected time of vesting | |

Performance Based Share Awards

Pursuant to an amendment of an employment agreement on June 28, 2017, an executive officer may earn shares of common stock if certain operating results of the Company are obtained. Any such shares, if earned, will be issued under the 2016 Stock Plan or another shareholder approved plan. For each of the Company's fiscal years 2017 through 2021, if the Company achieves between 85% and 101% of budgeted Funds from Operations ("FFO") as approved by the Board of Directors, the executive shall earn and be issued between 11,741 and 19,569 shares of common stock, determined on a straight-line basis based on the percentage of budgeted FFO achieved. In addition, for any fiscal year in which the Company achieves in excess of 101% of budgeted FFO, an additional 391 shares of

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

common stock will be earned for each two percent actual FFO exceeds 101% of budgeted FFO, up to a total of 3,910 additional shares of common stock per year.

The fair value of the performance based share awards is based on the closing price of the Company's common stock on the grant date, discounted for estimated common stock dividends to be declared prior to the shares being issued. The grant date occurs on an annual basis when budgeted FFO is approved by the Board of Directors. The total grant date fair value of the 2018 and 2017 portions of this performance based share award, assuming that 100% of budgeted FFO is achieved, was \$169 and \$191, respectively.

Warrants

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 Black-Scholes option pricing model was utilized at issuance for the determination of the fair value of the award. The warrant entitled the executive to purchase a total of 101,213 authorized but previously unissued shares of the Company's common stock at a price of (i) \$9.88 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) \$12.48 per share for shares purchased after that date. The warrant had a three-year term. The executive officer exercised the warrant in part to purchase 35,060 shares on March 11, 2015 at the price of \$9.88 per share. The remaining warrant expired unexercised on March 2, 2018.

LTIP Awards

On March 2, 2015, the Company granted an equity award of 5,263,152 LTIP units, representing profit interests in the operating partnership, to an executive officer of the Company. A Monte Carlo simulation was utilized at issuance for the determination of the fair value of the award. The LTIP units were to be earned in one-third increments upon the Company's common stock achieving price per share milestones of \$22.75, \$29.25, and \$35.75, respectively. Earned LTIP units were to vest in March 2018, or earlier upon a change in control of the Company, and upon vesting could be converted into operating partnership common units which could be redeemed at the rate of one share of common stock for each 52 earned LTIP units for up to 101,213 common shares. These LTIP units were cancelled on June 28, 2017 pursuant to an amendment of the employment agreement with the executive officer.

Director Fully Vested 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. Certain independent directors serving as members of the Board of Directors also elect to receive a portion of their director fees in the form of shares of the Company's common stock.

A total of 11,503, 5,369 and 2,361 shares were issued to independent directors under the 2016 Stock Plan with respect to these fees during the years ended December 31, 2018, 2017, and 2016, respectively.

Stock-Based Compensation Expense

The expense recognized in the consolidated financial statements for stock-based compensation, including the LTIP, related to employees and directors for the years ended December 31, 2018, 2017, and 2016 was \$974, \$1,237, and \$305, respectively, all of which is included in general and administrative expense. Total unrecognized compensation cost related to all awards at December 31, 2018 was \$966, which is expected to be recognized over a weighted-average remaining service period of 3.1 years.

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

NOTE 13. INCOME TAXES

For the years ended December 2018, 2017, and 2016, the income tax expense related to the operating partnership, including primarily Alternative Minimum Tax (“AMT”) in the years prior to 2018 and certain state and local taxes, totaled \$83, \$20, and \$35, respectively.

The components of the income tax expense (benefit) from the TRS from continuing operations for the years ended December 31, 2018, 2017, and 2016 were as follows:

| | Year ended December 31, | | |
|-------------------------------------|-------------------------|-----------------|--------------|
| | 2018 | 2017 | 2016 |
| Federal: | | | |
| Current | \$ - | \$ 33 | \$ 90 |
| Deferred | 202 | (615) | - |
| State and local: | | | |
| Current | (8) | 12 | - |
| Deferred | 58 | (45) | - |
| Income tax expense (benefit) | \$ 252 | \$ (615) | \$ 90 |

Actual income tax expense of the TRS for the years ended December 31, 2018, 2017, and 2016 differs from the “expected” income tax expense (benefit) (computed by applying the appropriate U.S. federal income tax rate of 21% in 2018 and 34% in 2017 and 2016 to earnings before income taxes) as a result of the following:

| | Year ended December 31, | | |
|---|-------------------------|-----------------|--------------|
| | 2018 | 2017 | 2016 |
| Computed "expected" income tax (benefit) expense | \$ 191 | \$ 546 | \$ 993 |
| State income taxes, net of federal income tax (benefit) expense | 40 | 47 | 139 |
| (Decrease) increase in valuation allowance | 29 | (1,097) | (1,082) |
| Other | (8) | (145) | (50) |
| AMT | - | 34 | 90 |
| Total income tax expense (benefit) | \$ 252 | \$ (615) | \$ 90 |

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017 are as follows:

| | As of December 31, | |
|--|--------------------|---------------|
| | 2018 | 2017 |
| Deferred Tax Assets | | |
| Accrued expenses and other | \$ 84 | \$ 104 |
| Net operating losses carried forward for federal income tax purposes | 1,004 | 814 |
| Net operating losses carried forward for state income tax purposes | 615 | 579 |
| AMT | 117 | 123 |
| Subtotal deferred tax assets | 1,820 | 1,620 |
| Valuation allowance | (483) | (454) |
| Total deferred tax assets | 1,337 | 1,166 |
| Deferred Liabilities | | |
| Tax depreciation in excess of book depreciation | 714 | 363 |
| Atlanta JV basis difference | 223 | 143 |
| Total deferred tax liabilities | 937 | 506 |
| Net deferred tax assets | \$ 400 | \$ 660 |

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

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. As a result of this analysis, the Company believed that a full valuation allowance against the net deferred tax asset position was necessary at December 31, 2016 and as such no current or deferred federal income tax other than AMT was recognized in the year then ended. At December 31, 2017 and again at December 31, 2018, it was determined by management that a valuation allowance against deferred tax assets was no longer required, with the exception of an allowance against certain state net operating losses, as management believes that it is more likely than not that remaining deferred tax assets will be realized.

After consideration of limitations related to a change in control as defined under Internal Revenue Code Section 382 following the Company's common and preferred equity transactions, the TRS's net operating loss carryforward at December 31, 2018 as determined for federal income tax purposes was \$4,783. The availability of the loss carryforwards will expire in 2027 through 2034.

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act ("TCJA"), was enacted. The TCJA made many significant changes to the U.S. federal income tax laws as of January 1, 2018. Pursuant to this legislation, the federal income tax rate applicable to corporations was permanently reduced to 21% and the corporate alternative minimum tax was repealed, and the deduction of net interest expense was limited for all businesses, provided that certain businesses, including real estate businesses, may elect not to be subject to such limitations and instead to depreciate their real property related assets over longer depreciable lives. The interest limitation was determined not to have an impact on the Company's calculation of taxable income.

The reduced 21% federal income tax rate applicable to corporations applied to taxable earnings reported for the full 2018 fiscal year. Accordingly, the Company has remeasured its net deferred tax assets using the lower federal tax rate that will apply when these amounts are expected to reverse. As a result, in the fourth quarter of 2017, we recognized tax expense of \$304 resulting from the revaluation of U.S. net deferred tax assets.

As of December 31, 2018, the tax years that remain subject to examination by major tax jurisdictions generally include 2015 through 2018.

Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a shareholder as ordinary income. Distributions in excess of current and accumulated earnings and profits generally will be treated as a nontaxable reduction of the shareholder's basis in such shareholder's shares, to the extent thereof, and thereafter as taxable capital gain. Distributions that are treated as a reduction of the shareholder's basis in its shares will have the effect of increasing the amount of gain, or reducing the amount of loss, recognized upon the sale of the shareholder's shares.

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

For income tax purposes, distributions paid per share for the years ended December 31, 2018, 2017, and 2016 were characterized as follows:

| | For the year ended December 31, | | | | | |
|----------------------------------|---------------------------------|-------------|--------------------|-------------|--------------------|-------------|
| | 2018 | | 2017 | | 2016 | |
| | Amount | % | Amount | % | Amount | % |
| Common Shares: | | | | | | |
| Ordinary income | \$ 0.097500 | 10% | \$ 0.117000 | 20% | \$ 0.455000 | 100% |
| Capital gain | - | - | - | - | - | - |
| Return of capital | 0.877500 | 90% | 0.468000 | 80% | - | - |
| Total | <u>\$ 0.975000</u> | <u>100%</u> | <u>\$ 0.585000</u> | <u>100%</u> | <u>\$ 0.455000</u> | <u>100%</u> |
| Series C Preferred Stock: | | | | | | |
| Ordinary income | \$ - | - | \$ - | - | \$ 1.649124 | 100% |
| Capital gain | - | - | - | - | - | - |
| Return of capital | - | - | - | - | - | - |
| Total | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> | <u>\$ 1.649124</u> | <u>100%</u> |
| Series D Preferred Stock: | | | | | | |
| Ordinary income | \$ - | - | \$ 0.104160 | 100% | \$ 0.494792 | 100% |
| Capital gain | - | - | - | - | - | - |
| Return of capital | - | - | - | - | - | - |
| Total | <u>\$ -</u> | <u>-</u> | <u>\$ 0.104160</u> | <u>100%</u> | <u>\$ 0.494792</u> | <u>100%</u> |
| Series E Preferred Stock: | | | | | | |
| Ordinary income | \$ 0.625000 | 100% | \$ 0.522569 | 100% | \$ - | 0% |
| Capital gain | - | - | - | - | - | - |
| Return of capital | - | - | - | - | - | - |
| Total | <u>\$ 0.625000</u> | <u>100%</u> | <u>\$ 0.522569</u> | <u>100%</u> | <u>\$ -</u> | <u>0%</u> |

The common and preferred share distributions declared on December 11, 2018 and paid on January 3, 2019 and December 31, 2018, respectively, were treated as 2018 distributions for tax purposes. The common share distribution declared on December 19, 2017 and paid on January 10, 2018 was treated as a 2018 distribution for tax purposes. The preferred share distribution declared on December 19, 2017 and paid on January 2, 2018 was treated as a 2017 distribution for tax purposes. The common and preferred share distributions declared on December 6, 2016 and paid on January 5, 2017 and January 3, 2017, respectively, were treated as 2016 distributions for tax purposes.

A portion of the redemption price of the Series A and B Preferred Stock that was redeemed for cash on April 15, 2016 included amounts equal to the accrued and unpaid dividends on such stock. However, the entire redemption price, inclusive of amounts equal to accrued and unpaid dividends, was treated as payment in exchange for the redeemed stock and none of the redemption price is treated as a distribution of dividends under the Code for federal income tax purposes.

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

NOTE 14. EARNINGS PER SHARE

The two-class method is utilized to compute earnings per common share (“EPS”) as our unvested restricted stock awards with non-forfeitable dividends are considered participating securities. Under the two-class method, losses are allocated only to those securities that have a contractual obligation to share in the losses of the Company. Our unvested restricted stock is not obligated to absorb Company losses and accordingly is not allocated losses. The following is a reconciliation of basic and diluted EPS:

| | Year ended December 31, | | |
|---|--------------------------------|-------------------|-----------------|
| | 2018 | 2017 | 2016 |
| <u>Numerator: Basic (1)</u> | | | |
| Net earnings (loss) attributable to common shareholders: | | | |
| Continuing operations | \$ 4,787 | \$ (9,362) | \$ 1,390 |
| Discontinued operations | - | - | 657 |
| Total Net earnings (loss) attributable to common shareholders | 4,787 | (9,362) | 2,047 |
| Less: Allocation to participating securities | (67) | (56) | - |
| Net earnings (loss) attributable to common shareholders, net of amount allocated to participating securities | <u>\$ 4,720</u> | <u>\$ (9,418)</u> | <u>\$ 2,047</u> |
| <u>Numerator: Diluted (1)</u> | | | |
| Net earnings (loss) attributable to common shareholders from continuing operations, net of amount allocated to participating securities | \$ 4,720 | \$ (9,418) | \$ 1,390 |
| Dividends on Series D Preferred Stock | - | - | 3,090 |
| Interest and fair value adjustment on Convertible Debt | (6) | - | - |
| Continuing operations - Diluted | 4,714 | (9,418) | 4,480 |
| Discontinued operations - Diluted | - | - | 657 |
| Total Diluted | <u>\$ 4,714</u> | <u>\$ (9,418)</u> | <u>\$ 5,137</u> |
| <u>Denominator</u> | | | |
| Weighted average number of common shares - Basic | 11,784,222 | 9,437,824 | 761,112 |
| Performance Based Share Awards | 4,285 | - | - |
| Series D Preferred Stock | - | - | 4,774,433 |
| Convertible Note | 97,269 | - | - |
| Weighted average number of common shares - Diluted | 11,885,776 | 9,437,824 | 5,535,545 |
| <u>Earnings Per Share</u> | | | |
| Continuing operations - Basic | \$ 0.40 | \$ (1.00) | \$ 1.82 |
| Discontinued operations - Basic | - | - | 0.85 |
| Total - Basic Earnings (Loss) per Share | <u>\$ 0.40</u> | <u>\$ (1.00)</u> | <u>\$ 2.67</u> |
| Continuing operations - Diluted | \$ 0.40 | \$ (1.00) | \$ 0.78 |
| Discontinued operations - Diluted | - | - | 0.13 |
| Total - Basic Earnings (Loss) per Share | <u>\$ 0.40</u> | <u>\$ (1.00)</u> | <u>\$ 0.91</u> |

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

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 as they are antidilutive:

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

| | Year ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Outstanding stock options (2) | - | 258 | 865 |
| Unvested restricted stock | 79,456 | 48,869 | - |
| Warrants - RES (2) | - | 53,608 | 576,923 |
| Warrants - Employees (2) | 11,056 | 66,153 | 66,153 |
| Series C Preferred Stock (2) | - | - | 598,991 |
| Series D Preferred Stock (2) | - | 970,606 | - |
| Series E Preferred Stock | 668,111 | 560,115 | - |
| Convertible debt | - | 97,269 | 77,336 |
| LTIP common units (1) (2) | - | 49,636 | 101,213 |
| Operating partnership common units (1) | 86,255 | 70,722 | 46,265 |
| Total potentially dilutive securities excluded from the denominator | <u>844,878</u> | <u>1,917,236</u> | <u>1,467,746</u> |

- (1) LTIP and common units 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.
- (2) Amounts above are weighted average amounts outstanding for the period presented. These instruments were no longer outstanding at December 31, 2018.

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 and abiding by franchisors' marketing standards. The management agreements generally require the TRS to fund debt service, working capital needs, and capital expenditures and to fund the management companies' third-party operating expenses, except those expenses not related to the operation of 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, 2018 receives a base monthly management fee of 3.0% to 3.5% of gross hotel revenue, with incentives for performance which increase such fee to a maximum of 5.0%. For the years ended December 31, 2018, 2017, and 2016, base management fees incurred totaled \$1,779, \$1,700, and \$1,619, respectively, all of which was included in continuing operations as hotel and property operations expense. For the years ended December 31, 2018, 2017, and 2016, incentive management fees, included in continuing operations in their entirety, totaled \$333, \$306, and \$190, respectively.

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 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. The management agreements terminate with respect to a hotel upon sale of the hotel, subject to certain notice requirements.

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

Franchise Agreements

As of December 31, 2018, all of our wholly owned 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 \$4,834, \$3,800, and \$3,123, for the years ended December 31, 2018, 2017, and 2016, respectively, all of which was included in continuing operations as hotel and property operations expense.

The franchisor of two of our hotels advised us in February 2019 that both of the hotels has dropped below the required level for guest satisfaction surveys, and that if the hotel does not achieve compliance, it reserves the right to elect to terminate the relevant franchise agreement. The Company is actively addressing the matter relating to the surveys and has plans in place which it believes will resolve these issues.

Leases

The Company has no land lease agreements in place related to properties owned at December 31, 2018. Land lease expense related to properties previously owned totaled \$0, \$9, and \$105 for the years ended December 31, 2018, 2017, and 2016, respectively, all of which is included in continuing operations as hotel and property operations expense.

The Company entered into three new office lease agreements in 2016, replacing all existing office lease agreements. These leases expire in 2019 through 2021 and have combined rent expense of approximately \$154 annually. Office lease expense totaled \$160, \$154, and \$199 in the years ended December 31, 2018, 2017, and 2016, respectively, and is included in general and administrative expense.

As of December 31, 2018, the future minimum lease payments applicable to non-cancellable operating leases are as follows:

| | Lease rents |
|------|--------------------|
| 2019 | \$ 138 |
| 2020 | 61 |
| 2021 | 47 |
| 2022 | - |
| 2023 | - |
| | <u>\$ 246</u> |

As of December 31, 2018, the Company had agreements with one restaurant and a cell tower operator for leased space at our hotel locations. Lease income totaled \$65, \$71, and \$86, for the years ended December 31, 2018, 2017, and 2016, respectively, all of which was included in continuing operations in room rentals and other hotel services revenue.

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, 2018, 2017, and 2016 was \$71, \$67, and \$73, respectively, and is included in general and administrative expenses.

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

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.

NOTE 16. QUARTERLY OPERATING RESULTS (UNAUDITED)

| | Quarter ended (unaudited) | | | | |
|--|---------------------------|-----------------|-----------------------|----------------------|-------------------|
| | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | Total 2017 |
| Revenue | \$ 10,361 | \$ 14,252 | \$ 15,562 | \$ 15,278 | \$ 55,453 |
| Operating expenses | 11,001 | 12,719 | 14,417 | 14,040 | 52,177 |
| Operating income (loss) | (640) | 1,533 | 1,145 | 1,238 | 3,276 |
| Net gain (loss) on dispositions of assets | (3) | 4,852 | (46) | 2,004 | 6,807 |
| Equity in earnings (loss) of joint venture | 111 | 25 | 159 | (105) | 190 |
| Net gain on derivatives and convertible debt | 175 | 227 | 14 | 20 | 436 |
| Other income (expense), net | (1) | (39) | (43) | (28) | (111) |
| Interest expense | (971) | (1,092) | (1,405) | (1,706) | (5,174) |
| Loss on debt extinguishment | (800) | - | - | (167) | (967) |
| Impairment loss, net | (271) | (479) | (848) | (553) | (2,151) |
| Earnings (loss) before income tax expense | (2,400) | 5,027 | (1,024) | 703 | 2,306 |
| Income tax benefit (expense) | - | (35) | (15) | 645 | 595 |
| Net earnings (loss) | (2,400) | 4,992 | (1,039) | 1,348 | 2,901 |
| (Earnings) loss attributable to noncontrolling interest | 50 | (67) | 7 | (10) | (20) |
| Earnings (loss) attributable to controlling interests | (2,350) | 4,925 | (1,032) | 1,338 | 2,881 |
| Dividends declared and in kind dividends deemed on preferred stock | (11,603) | (271) | (205) | (164) | (12,243) |
| Net earnings (loss) attributable to common shareholders | \$ (13,953) | \$ 4,654 | \$ (1,237) | \$ 1,174 | \$ (9,362) |
| Earnings (loss) per Share (1) | | | | | |
| Total - Basic Earnings (loss) per Share | \$ (4.75) | \$ 0.40 | \$ (0.11) | \$ 0.10 | \$ (1.00) |
| Total - Diluted Earnings (loss) per Share | \$ (4.75) | \$ 0.37 | \$ (0.11) | \$ 0.10 | \$ (1.00) |

(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.

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

| | Quarter ended (unaudited) | | | | |
|--|---------------------------|-----------------|-----------------------|----------------------|-----------------|
| | March 31, 2018 | June 30, 2018 | September 30, 2018 | December 31, 2018 | Total 2018 |
| Revenue | \$ 16,679 | \$ 17,834 | \$ 15,462 | \$ 15,082 | \$ 65,057 |
| Operating expenses | 14,561 | 14,876 | 14,266 | 13,202 | 56,905 |
| Operating income | <u>2,118</u> | <u>2,958</u> | <u>1,196</u> | <u>1,880</u> | <u>8,152</u> |
| Net gain (loss) on dispositions of assets | (24) | 1,895 | 3,716 | (17) | 5,570 |
| Equity in earnings (loss) of joint venture | 229 | 63 | (41) | (469) | (218) |
| Net gain (loss) on derivatives and convertible debt | 447 | 156 | 116 | (402) | 317 |
| Other expense, net | (14) | (20) | (23) | (26) | (83) |
| Interest expense | (1,928) | (2,091) | (2,154) | (2,153) | (8,326) |
| Impairment recovery, net | 93 | - | - | - | 93 |
| Earnings (loss) from continuing operations before income tax expense | 921 | 2,961 | 2,810 | (1,187) | 5,505 |
| Income tax expense | (129) | (54) | (132) | (20) | (335) |
| Net earnings (loss) | <u>792</u> | <u>2,907</u> | <u>2,678</u> | <u>(1,207)</u> | <u>5,170</u> |
| (Earnings) loss attributable to noncontrolling interest | (6) | (21) | (20) | 242 | 195 |
| Earnings (loss) attributable to controlling interests | <u>786</u> | <u>2,886</u> | <u>2,658</u> | <u>(965)</u> | <u>5,365</u> |
| Dividends declared | (144) | (145) | (145) | (144) | (578) |
| Net earnings (loss) attributable to common shareholders | <u>\$ 642</u> | <u>\$ 2,741</u> | <u>\$ 2,513</u> | <u>\$ (1,109)</u> | <u>\$ 4,787</u> |
| Earnings (loss) per Share (1) | | | | | |
| Total - Basic Earnings (loss) per Share | \$ 0.05 | \$ 0.23 | \$ 0.21 | \$ (0.10) | \$ 0.40 |
| Total - Diluted Earnings (loss) per Share | \$ 0.05 | \$ 0.23 | \$ 0.21 | \$ (0.10) | \$ 0.40 |

(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.

Condor Hospitality Trust, Inc. and Subsidiaries
Schedule III Real Estate and Accumulated Depreciation
As of December 31, 2018
(In thousands)

| Brand | Location | Acquisition date | Encumbrance | Initial cost | | | | Additions, (dispositions), and (impairments) Subsequent to acquisition | | | | Gross amount at December 31, 2018 | | | | | |
|---------------------------|-----------------------|------------------|-------------|------------------|-------------------|-----------------------|-------------|--|-----------------------|------------------|-------------------|-----------------------------------|--------------------|-------------------|-----------------------|--------------------------|----------------|
| | | | | Land | Buildings & Other | Furniture & equipment | Land | Buildings & Other | Furniture & equipment | Land | Buildings & Other | Furniture & equipment | Land | Buildings & Other | Furniture & equipment | Accumulated depreciation | Net book value |
| | | | | | | | | | | | | | | | | | |
| Quality Inn | Solomons, Maryland | 06/01/1986 | KEY | \$ 2,304 | \$ 2,719 | \$ 269 | \$ - | \$ 1,768 | \$ 450 | \$ 2,304 | \$ 4,487 | \$ 719 | \$ (3,425) | \$ 4,085 | | | |
| Hilton Garden Inn | Dowell, Maryland | 05/25/2012 | KEY | 1,400 | 9,492 | 323 | - | 671 | 523 | 1,400 | 10,163 | 846 | (2,363) | 10,046 | | | |
| SpringHill Suites | San Antonio, Texas | 10/01/2015 | WELLS | 1,597 | 14,353 | 1,550 | - | 114 | 61 | 1,597 | 14,467 | 1,611 | (2,053) | 15,622 | | | |
| Courtyard by Marriott | Jacksonville, Florida | 10/02/2015 | WELLS | 2,100 | 11,050 | 850 | - | 245 | 206 | 2,100 | 11,295 | 1,056 | (1,812) | 12,639 | | | |
| Hotel Indigo | Atlanta, Georgia | 10/02/2015 | WELLS | 800 | 8,700 | 1,500 | - | 198 | 252 | 800 | 8,898 | 1,752 | (1,941) | 9,509 | | | |
| Aloft | Leawood, Kansas | 12/14/2016 | GWB | 3,339 | 18,046 | 1,115 | - | 365 | 407 | 3,339 | 18,411 | 1,522 | (1,583) | 21,689 | | | |
| Home2 Suites | Lexington, Kentucky | 03/24/2017 | KEY | 905 | 14,204 | 1,351 | - | 156 | 15 | 905 | 14,360 | 1,366 | (1,170) | 15,461 | | | |
| Home2 Suites | Round Rock, Texas | 03/24/2017 | KEY | 1,087 | 14,345 | 1,285 | - | 150 | 5 | 1,087 | 14,495 | 1,290 | (1,119) | 15,753 | | | |
| Home2 Suites | Tallahassee, Florida | 03/24/2017 | KEY | 1,519 | 18,229 | 1,727 | - | 159 | 3 | 1,519 | 18,388 | 1,730 | (1,452) | 20,185 | | | |
| | Southaven, | | | | | | | | | | | | | | | | |
| Home2 Suites | Mississippi | 04/14/2017 | MS | 1,311 | 16,792 | 897 | - | 180 | 53 | 1,311 | 16,972 | 950 | (1,385) | 17,848 | | | |
| Hampton Inn & Suites | Lake Mary, Florida | 06/19/2017 | KEY | 1,200 | 16,432 | 1,773 | - | 273 | 135 | 1,200 | 16,705 | 1,908 | (1,175) | 18,638 | | | |
| Fairfield Inn & Suites | El Paso, Texas | 08/31/2017 | KEY | 1,014 | 14,297 | 1,089 | - | 115 | 32 | 1,014 | 14,412 | 1,121 | (815) | 15,732 | | | |
| Residence Inn | Austin, Texas | 08/31/2017 | KEY | 1,495 | 19,630 | 1,275 | - | 155 | 46 | 1,495 | 19,785 | 1,321 | (1,001) | 21,600 | | | |
| TownePlace Suites | Austin, Texas | 01/18/2018 | KEY | 1,435 | 16,459 | 1,729 | - | 129 | - | 1,435 | 16,588 | 1,729 | (672) | 19,080 | | | |
| Home2 Suites | Summerville, SC | 02/21/2018 | KEY | 998 | 13,491 | 1,854 | - | 175 | 4 | 998 | 13,666 | 1,858 | (566) | 15,956 | | | |
| Subtotal Hotel Properties | | | | 22,504 | 208,239 | 18,587 | - | 4,853 | 2,192 | 22,504 | 213,092 | 20,779 | (22,532) | 233,843 | | | |
| Construction in progress | | | | - | - | - | - | 45 | 285 | - | 45 | 285 | - | 330 | | | |
| Office building | | | | - | - | - | - | - | 494 | - | - | 494 | (397) | 97 | | | |
| Total | | | | \$ 22,504 | \$ 208,239 | \$ 18,587 | \$ - | \$ 4,898 | \$ 2,971 | \$ 22,504 | \$ 213,137 | \$ 21,558 | \$ (22,929) | \$ 234,270 | | | |

Condor Hospitality Trust, Inc. and Subsidiaries
Notes to Schedule III Real Estate and Accumulated Depreciation
As of December 31, 2018
(In thousands)

Encumbrance codes refer to the following lenders:

| | |
|--------------|---|
| KEY | KeyBank credit facility |
| GWB | Great Western Bank |
| Wells | Wells Fargo |
| MS | Morgan Stanley Bank of America Merrill Lynch Trust 2014-C18 |

See accompanying report of independent registered public accounting firm

Condor Hospitality Trust, Inc. and Subsidiaries
Notes to Schedule III Real Estate and Accumulated Depreciation
As of December 31, 2018
(In thousands)

| ASSET BASIS | | Total |
|---------------------------------|---|-------------------|
| (a) | Balance at January 1, 2016 | \$ 188,899 |
| | Additions | 25,618 |
| | Disposals | (68,256) |
| | Impairment loss, net | (2,877) |
| | Balance at December 31, 2016 | 143,384 |
| | Additions | 134,709 |
| | Disposals | (34,814) |
| | Impairment loss, net | (2,151) |
| | Balance at December 31, 2017 | 241,128 |
| | Additions | 38,198 |
| | Disposals | (22,220) |
| | Impairment recovery, net | 93 |
| | Balance at December 31, 2018 | <u>\$ 257,199</u> |
| ACCUMULATED DEPRECIATION | | Total |
| (b) | Balance at January 1, 2016 | \$ 58,200 |
| | Depreciation for the period ended December 31, 2016 | 5,190 |
| | Depreciation on assets sold or disposed | (33,477) |
| | Impairment loss, net | (1,400) |
| | Balance at December 31, 2016 | 28,513 |
| | Depreciation for the period ended December 31, 2017 | 6,898 |
| | Depreciation on assets sold or disposed | (13,863) |
| | Balance at December 31, 2017 | 21,548 |
| | Depreciation for the period ended December 31, 2018 | 9,475 |
| | Depreciation on assets sold or disposed | (8,094) |
| | Balance at December 31, 2018 | <u>\$ 22,929</u> |

- (a) The aggregate cost of land, buildings, furniture and equipment for Federal income tax purposes is approximately \$256 million (unaudited).
- (b) Depreciation is computed based upon the following useful lives:
Buildings and improvements 15 - 40 years
Furniture and equipment 3 - 12 years
- (c) The Company has mortgages payable on the properties as noted. Additional mortgage information can be found in Note 6 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 affected, or are reasonably likely to materially affect, 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, 2018. The Company's management used the framework in *Internal Control—Integrated Framework (2013)* 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, 2018.

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

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the Company's definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

The Company has adopted a Code of Business Conduct and Ethics and Whistleblower Policy that applies to the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer and has posted the code on its website at www.condorhospitality.com through the "Investors" link. 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 and Whistleblower Policy applicable to the Company's Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer by posting that information on the Company's Web site at www.condorhospitality.com through the "Investors" link.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Company's definitive Proxy Statement for the 2019 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 2019 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, 2018:

| 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 | - | \$ - | 601,695 (1) |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | - | \$ - | 601,695 |

- (1) Represents shares issuable under the Company's 2016 Stock Plan. The maximum number of shares of the Company's common stock that may be issued under the 2016 Stock Plan is 761,538. Additionally, an executive officer will be issued shares under the 2016 Stock Plan, if sufficient shares are then available under the 2016 Stock Plan, of 36,692 common shares each time stock market price targets of \$11.00 to \$18.00 (in one dollar increments) per common share are first achieved prior to March 31, 2022 based on the weighted-average common stock price for 60 consecutive trading days (or upon a change in control with the award prorated for the portion between price targets), and between 11,741 and 23,479 shares annually if budgeted Funds from Operations targets are achieved.

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 2019 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 2019 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:

| | <u>Page</u> |
|--|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 44 |
| <u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u> | 45 |
| <u>Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017, and 2016</u> | 46 |
| <u>Consolidated Statements of Equity for the Years Ended December 31, 2018, 2017, and 2016</u> | 47 |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017, and 2016</u> | 48 |
| <u>Notes to Consolidated Financial Statements</u> | 49 |
| <u>Schedule III – Real Estate and Accumulated Depreciation</u> | 84 |
| <u>Notes to Schedule III – Real Estate and Accumulated Depreciation</u> | 86 |

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 May 24, 2017).
- 3.2 Bylaws 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 June 28, 2017).
- 10.1 Third Amended and Restated Agreement of Limited Partnership of Condor Hospitality Limited Partnership, as amended (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, 2016).

- 10.2 Amended and Restated Limited Liability Company Agreement of Spring Street Hotel Property II LLC dated as of August 22, 2016 (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 22, 2016).
- 10.3 Limited Liability Company Agreement of Spring Street Hotel OpCo II LLC dated as of August 22, 2016 (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 22, 2016).
- 10.4 Hotel Management Agreement dated June 29, 2016 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 29, 2016).
- 10.5 Hotel Management Agreement dated June 29, 2016 by and between TRS Leasing, Inc., TRS Subsidiary, LLC and Strand Development Company, 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 June 29, 2016).
- 10.6 Hotel Management Agreement dated June 29, 2016 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 29, 2016).
- 10.7 Hotel Management Agreement dated June 29, 2016 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 29, 2016).
- 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 Hotel Management Agreement, dated June 29, 2016, by and between TRS Leasing, Inc., TRS Subsidiary, LLC and K Partners Hospitality Group LP (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 29, 2016).
- 10.12 Agreement between Spring Street Hotel OpCo LLC and Boast Hotel Management Company LLC dated effective August 19, 2016 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 22, 2016).
- 10.13 Hotel Management Agreement dated as of December 14, 2016 between TRS KCI Loft, LLC and Presidian Destinations, Ltd. (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 14, 2016).

- 10.14 Hotel Management Agreement dated as of March 24, 2017 between TRS TLH Magnolia, LLC and Vista Host Inc. (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 24, 2017).
- 10.15 Hotel Management Agreement dated as of March 24, 2017 between TRS AUS Louis, LLC and Vista Host Inc. (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 24, 2017).
- 10.16 Hotel Management Agreement dated as of March 24, 2017 between TRS LEX Lowry, LLC and Vista Host Inc. (incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated March 24, 2017).
- 10.17 Hotel Management Agreement dated as of April 14, 2017 between TRS MEM Southcrest, LLC and Vista Host Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A (Commission file number 001-34087) dated March 24, 2017).
- 10.18 Hotel Management Agreement dated as of June 19, 2017 between TRS MCO Village, LLC and Peachtree Hospitality Management, 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, 2017).
- 10.19 Hotel Management Agreement dated as of August 31, 2017 between TRS ELP Edge, LLC and Pillar Hotels & Resorts, LLC (incorporated by reference to Exhibit 10.7 filed with the Company's Form 8-K (Commission file number 001-34087) dated August 31, 2017).
- 10.20 Hotel Management Agreement dated as of August 31, 2017 between TRS AUS Casey, LLC and Pillar Hotels & Resorts, LLC (incorporated by reference to Exhibit 10.8 filed with the Company's Form 8-K (Commission file number 001-34087) dated August 31, 2017).
- 10.21 Hotel Management Agreement dated as of January 17, 2018 between TRS AUS Tech, LLC and Pillar Hotels & Resorts, LLC (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A (Commission file number 001-34087) dated August 31, 2017).
- 10.22 Loan Agreement dated as of August 22, 2016 between Spring Street Hotel Property LLC, Spring Street Hotel Opco LLC and LoanCore Capital Credit REIT 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 August 22, 2016).
- 10.23 Guaranty of Recourse Obligations by the Company and Alan Kanders and Raviraj Kiran Dave dated August 22, 2016 in favor of LoanCore Capital Credit REIT 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 August 22, 2016).
- 10.24 Loan Agreement dated as of December 14, 2016 among CDOR KCI Loft, LLC, TRS KCI Loft, LLC and Great Western Bank (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 14, 2016).
- 10.25 Springing Unconditional Guaranty of Payment and Performance dated as of December 14, 2016 by the Company in favor of Great Western Bank (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 14, 2016).
- 10.26 Limited Guaranty of Payment and Performance dated as of December 14, 2016 by the Company in favor of Great Western Bank (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated December 14, 2016).

- 10.27 Credit Agreement dated as of March 1, 2017 by and among Condor Hospitality Limited Partnership, as Borrower, Keybank National Association and the other lenders party thereto, as Lenders, and Keybank National Association, as Administrative Agent (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 1, 2017).
- 10.28 Unconditional Guaranty of Payment and Performance dated as of March 1, 2017 by Condor Hospitality REIT Trust, the Company and the subsidiary guarantors party thereto (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 1, 2017).
- 10.29 First Amendment to Credit Agreement dated as of May 11, 2017 among Condor Hospitality Limited Partnership, as Borrower, the Company and the subsidiary guarantors party thereto, as Guarantors, Keybank National Association and the other lenders party thereto, as Lenders, and Keybank National Association, as Administrative Agent (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 11, 2017).
- 10.30 Second Amendment to Credit Agreement dated as of December 13, 2017 among Condor Hospitality Limited Partnership, as Borrower, the Company and the subsidiary guarantors party thereto, as Guarantors, Keybank National Association and the other lenders party thereto, as Lenders, and Keybank National Association, as Administrative Agent (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 13, 2017).
- 10.31 Loan Agreement dated as of October 4, 2017 between CDOR Jax Court, LLC, TRS Jax Court, LLC, CDOR Atl Indy, LLC, TRS Atl Indy, LLC, CDOR San Spring, LLC and TRS San Spring, LLC and Wells Fargo Bank, National Association (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated October 4, 2017).
- 10.32 Guaranty of Recourse Obligations dated as of October 4, 2017 by the Company to Wells Fargo Bank, National Association (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated October 4, 2017).
- 10.33 Cash Management Agreement dated as of October 4, 2017 by and among Wells Fargo Bank, National Association and CDOR Jax Court, LLC, TRS Jax Court, LLC, CDOR Atl Indy, LLC, TRS Atl Indy, LLC, CDOR San Spring, LLC and TRS San Spring, 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 October 4, 2017).
- 10.34 Purchase Agreement, dated November 16, 2011, by and among the Company, Condor Hospitality 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).
- 10.35 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).
- 10.36 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).
- 10.37 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).
- 10.38 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).
- 10.39 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).
- 10.40 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).
- 10.41 Warrant dated January 24, 2017 issued to Real Estate Strategies L.P. (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 23, 2017).
- 10.42 Agreement, dated as of February 28, 2017, by and among Real Estate Strategies L.P., IRSA Inversiones y Representaciones Sociedad Anónima 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 February 28, 2017).
- 10.43 Joinder Agreement dated June 29, 2018 by and among the Company, Real Estate Strategies L.P., IRSA Inversiones y Representaciones Sociedad Anonima, and Real Estate Investment Group VII L.P. (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 29, 2018).
- 10.44 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).
- 10.45 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).
- 10.46 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).
- 10.47 Agreement, dated as of February 28, 2017, between SREP III Flight-Investco, L.P., StepStone Group Real Estate LP 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 February 28, 2017).
- 10.48 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).

- 10.49 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).
- 10.50 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).
- 10.51 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).
- 10.52 The Company's 2016 Stock Plan (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 15, 2016).
- 10.53 Amendment to the Company's 2016 Stock Plan (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 17, 2018).
- 10.54 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).
- 10.55 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).
- 10.56 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).
- 10.57 Amended and Restated Employment Agreement dated March 2, 2015 by and between the Company and J. William Blackham, as amended and restated on September 16, 2016 (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 16, 2016).
- 10.58 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).
- 10.59 Amendment of Employment Agreement dated June 28, 2017 between J. William Blackham 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 June 28, 2017).
- 10.60 Amendment of Employment Agreement dated April 10, 2018 between J. William Blackham 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 April 10, 2018).
- 10.61 Form of Executive Officer and Director Indemnification Agreement (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 March 31, 2016).

- 10.62 Form of Restricted Stock Agreement (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, 2017).
- 10.63 Form of Director Restricted Stock Agreement (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, 2017).
- 10.64 Agreement of Purchase and Sale dated as of August 29, 2016 between Leawood ADP, Ltd. and Condor Hospitality Limited Partnership (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 29, 2016).
- 10.65 Purchase and Sale Agreement dated as of January 23, 2017 between Condor Hospitality Limited Partnership and VHRMR TALL, 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 January 23, 2017).
- 10.66 Purchase and Sale Agreement dated as of January 23, 2017 between Condor Hospitality Limited Partnership and EASTVHR HS ROUND ROCK, 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 January 23, 2017).
- 10.67 Purchase and Sale Agreement dated as of January 23, 2017 between Condor Hospitality Limited Partnership and CVH LEXINGTON, 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 January 23, 2017).
- 10.68 Purchase and Sale Agreement dated as of January 23, 2017 between Condor Hospitality Limited Partnership and CVH SOUTHAVEN, 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 January 23, 2017).
- 10.69 Purchase and Sale Agreement dated as of April 29, 2017 between Condor Hospitality Limited Partnership and SI Lake Mary, LP. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated April 29, 2017).
- 10.70 Purchase and Sale Agreement Fairfield Inn & Suites El Paso Airport dated as of July 17, 2017 between Condor Hospitality Limited Partnership and MB Hospitality (EP), LP (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 17, 2017).
- 10.71 First Amendment to Purchase and Sale Agreement Fairfield Inn & Suites El Paso Airport dated as of August 31, 2017 between Condor Hospitality Limited Partnership and MB Hospitality (EP), LP (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 31, 2017).
- 10.72 Purchase and Sale Agreement Residence Inn Austin Airport dated as of July 17, 2017 between Condor Hospitality Limited Partnership and MB Hospitality (AUSAP), LP (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 17, 2017).
- 10.73 First Amendment to Purchase and Sale Agreement Residence Inn Austin Airport dated as of August 31, 2017 between Condor Hospitality Limited Partnership and MB Hospitality (AUSAP), LP

(incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 31, 2017).

- 10.74 Purchase and Sale Agreement TownePlace Suites Austin North Tech Ridge dated as of July 17, 2017 between Condor Hospitality Limited Partnership and MB Hospitality (AUSN), LP (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 17, 2017).
- 10.75 First Amendment to Purchase and Sale Agreement TownePlace Suites Austin North Tech Ridge dated as of August 31, 2017 between Condor Hospitality Limited Partnership and MB Hospitality (AUSN), LP (incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 31, 2017).
- 14.1 Code of Business Conduct and Ethics and Whistleblower Policy (incorporated herein by reference to Exhibit 14.1 to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated May 17, 2018).
- 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, 2018, 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 10.48 through 10.63.

* Filed herewith.

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 dually authorized

March 11, 2019 /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 <i>(Principal Executive Officer)</i> | March 11, 2019 |
| <u>/s/Jonathan J. Gantt</u> Jonathan J. Gantt | Chief Financial Officer <i>(Principal Financial Officer)</i> | March 11, 2019 |
| <u>/s/Arinn A. Cavey</u> Arinn A. Cavey | Chief Accounting Officer <i>(Principal Accounting Officer)</i> | March 11, 2019 |
| <u>/s/James H. Friend</u> James H. Friend | Chairmen of the Board | March 11, 2019 |
| <u>/s/Thomas Calahan</u> Thomas Calahan | Board Member | March 11, 2019 |
| <u>/s/Daphne J. Dufresne</u> Daphne J. Dufresne | Board Member | March 11, 2019 |
| <u>/s/Daniel R. Elsztain</u> Daniel R. Elsztain | Board Member | March 11, 2019 |
| <u>/s/Donald J. Landry</u> Donald J. Landry | Board Member | March 11, 2019 |
| <u>/s/Brendan MacDonald</u> Brendan MacDonald | Board Member | March 11, 2019 |
| <u>/s/John M. Sabin</u> John M. Sabin | Board Member | March 11, 2019 |

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Reconciliation of Non-GAAP Financial Measures

| | <u>Year ended December 31,</u> |
|---|--------------------------------|
| | <u>2014</u> |
| <u>Reconciliation of Net earnings to EBITDA, Adjusted EBITDA, and Hotel EBITDA</u> | |
| Net loss | (16.3) |
| Interest expense | 8.3 |
| Loss on debt extinguishment | 0.3 |
| Depreciation and amortization expense | 6.5 |
| ETITDA | \$ (1.2) |
| Net gain on disposition of assets | (2.8) |
| Impairment loss, net | 2.9 |
| Net loss on derivatives and convertible debt | 14.4 |
| Stock-based compensation | 0.0 |
| Equity and terminated transactions expense | 0.1 |
| Adjusted EBITDA | \$ 13.5 |
| General and administrative expense, excluding stock compensation | 4.2 |
| Other income | (0.1) |
| Unallocated hotel and property operations expense | 0.3 |
| Hotel EBITDA | \$ 17.9 |
| Revenue | 72.4 |
| Net loss as a percentage of revenue | NM* |
| Hotel EBITDA as a percentage of revenue | 25% |

*Not Meaningful

| | <u>Year ended December 31,</u> |
|---|--------------------------------|
| | <u>2018</u> |
| <u>Reconciliation of Net Earnings to EBITDA, Adjusted EBITDA, and Hotel EBITDA</u> | |
| Net earnings | \$ 5.2 |
| Interest expense | 8.3 |
| Interest expense from JV | 2.1 |
| Loss on debt extinguishment | - |
| Income tax expense (benefit) | 0.3 |
| Depreciation and amortization expense | 9.5 |
| Depreciation and amortization expense from JV | 1.2 |
| EBITDA | 26.6 |
| Net gain on disposition of assets | (5.6) |
| Net loss on disposition of assets from JV | 0.2 |
| Impairment loss (recovery), net | (0.1) |
| Net gain on derivatives and convertible debt | (0.3) |
| Net loss on derivative from JV | 0.0 |
| Stock-based compensation and LTIP expense | 1.0 |
| Acquisition and terminated transactions expense | 0.2 |
| Acquisition and terminated transactions expense from JV | - |
| Equity and terminated transactions expense | - |
| Adjusted EBITDA | 21.9 |
| General and administrative expense, excluding stock compensation and LTIP expense | 5.2 |
| Other expense (income), net | 0.1 |
| Unallocated hotel and property operations expense | 0.4 |
| Hotel EBITDA | \$ 27.6 |
| Revenue | \$ 65.1 |
| JV revenue | 9.5 |
| Total Company and JV revenue | \$ 74.6 |
| Net earnings as a percentage of revenue | 7% |
| Hotel EBITDA as a percentage of revenue | 37% |
| Total company and JV revenue | \$ 74.6 |
| Revenue earned on properties disposed of prior to December 31, 2018 during the period of ownership | (3.1) |
| Revenue on properties deemed held for sale | (1.3) |
| Partner's share of Atlanta Aloft Revenue | 2.4 |
| Revenue earned on Austin TownePlace Suites and Summerville Home2 Suites in 2018 prior to ownership | 0.6 |
| 2018 Run-Rate Revenue on Fifteen-Hotel New Investment Platform Portfolio | \$ 73.2 |
| Hotel EBITDA | \$ 27.6 |
| EBITDA earned on properties disposed of prior to December 31, 2018 during the period of ownership | (0.9) |
| EBITDA on properties deemed held for sale | (0.3) |
| Partner's share of Atlanta Aloft EBITDA | 0.8 |
| EBITDA earned on Austin TownePlace Suites and Summerville Home2 Suites in 2018 prior to ownership | 0.3 |
| 2018 Run-Rate EBITDA on Fifteen-Hotel New Investment Platform Portfolio | \$ 27.6 |
| 2018 Run-Rate EBITDA on Fifteen-Hotel New Investment Platform Portfolio as a percentage of Run-Rate Revenue | 38% |
| 2018 Run-Rate EBITDA on Fifteen-Hotel new Investment Platform Portfolio | \$ 27.6 |
| EBITDA earned on the Hilton Garden Inn Solomons | (1.2) |
| 2018 Run-Rate EBITDA earned on Fourteen-Hotel Acquisition portfolio | \$ 26.4 |



CORPORATE INFORMATION

BOARD OF DIRECTORS

J. William Blackham

President, Chief Executive Officer,
Condor Hospitality Trust, Inc.

Thomas Calahan³

Managing Director,
Ozone Capital Management

Daphne Dufresne³

Managing Partner,
GenNx360 Capital Partners

Daniel Elsztein^{2,3,4}

Chief Real Estate Business Officer,
IRSA

James Friend^{CB,1}

Chairman of the Board, Condor;
President and Chief Executive Officer,
Friend Development Group

Donald Landry^{3*,4*}

President and Owner,
Top Ten Hospitality Advisors

Brendan MacDonald^{2,4}

Partner,
StepStone Real Estate L.P.

John Sabin^{1*,2*}

Chief Financial Officer,
Revolution LLC, and
Case Foundation

Benjamin Wall¹

Co-Founder and Managing Partner,
WJ Partners

EXECUTIVE OFFICERS

J. William Blackham

President, Chief Executive Officer

Jonathan Gantt

Senior Vice President,
Chief Financial Officer

Arinn Cavey

Chief Accounting Officer

Lauren Green

Corporate Counsel, Secretary

CORPORATE HEADQUARTERS

4800 Montgomery Lane
Suite 220
Bethesda, MD 20814
Phone: (301) 861-3305
Website: www.condorhospitality.com

Corporate Offices:
1111 North 102nd Court
Suite 222
Omaha, NE 68114
Phone: (402) 371-2520

1800 West Pasewalk Avenue
Suite 200
Norfolk, NE 68701
Phone: (402) 371-2520
Fax: (402) 371-4229

STOCK EXCHANGE LISTING

Condor Hospitality Trust, Inc. trades
on the NYSE American Exchange
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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
1676 International Drive
McLean, VA 22102

INVESTOR RELATIONS CONTACT

Jonathan Gantt
Chief Financial Officer
Condor Hospitality Trust, Inc.
4800 Montgomery Lane
Suite 220
Bethesda, MD 20814
Phone: (301) 861-3305
Email: investors@trustcondor.com

FORM 10-K

Additional copies of the Company's
2018 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: (301) 861-3305
Email: investors@trustcondor.com

Committee Membership

1 Audit Committee

2 Compensation Committee

3 Investment Committee

4 Nominating Committee

*Denotes Chairman of Committee

CB Chairman of the Board

Condor Hospitality Trust
4800 Montgomery Lane
Suite 220
Bethesda, MD 20814
www.condorhospitality.com

