Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

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	**52-1889548**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

4800 Montgomery Lane Ste. 220, Bethesda, MD 20814
(Address of principal executive offices)

Telephone number: (402) 371-2520

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

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

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

Large accelerated filer ☐ Accelerated filer ☐

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

Indicate by check mark whether the registrant is a shell company (as described in Rule 12b-2 of the Exchange Act).YES ☐ NO ☒

As of October 31, 2016 there were 4,956,835 shares of common stock, par value $.01 per share, outstanding.

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

	As of	
	September 30, 2016	**December 31, 2015**
Assets		
Investment in hotel properties, net	$ 92,034	$ 93,794
Investment in unconsolidated joint venture	9,226	-
Cash and cash equivalents	11,355	4,870
Restricted cash, property escrows	3,490	3,776
Accounts receivable, net of allowance for doubtful accounts of $11 and $10	1,297	1,169
Prepaid expenses and other assets	2,473	1,832
Investment in hotel properties held for sale, net	19,089	36,905
Total Assets	$ 138,964	$ 142,346
Liabilities and Equity		
Liabilities		
Accounts payable, accrued expenses, and other liabilities	$ 6,796	$ 5,419
Derivative liabilities, at fair value	190	8,759
Convertible debt, at fair value	1,236	-
Long-term debt, net of deferred financing costs	52,683	55,776
Long-term debt related to hotel properties held for sale, net of deferred financing costs	10,900	30,235
Total Liabilities	71,805	100,189
Redeemable preferred stock:		
10% Series B, 800,000 shares authorized; $.01 par value, 332,500 shares outstanding, liquidation preference of $10,182 at December 31, 2015	-	7,662
Equity		
Shareholders' equity		
Preferred stock, 40,000,000 shares authorized:		
8% Series A, 2,500,000 shares authorized, $.01 par value, 803,270 shares outstanding, liquidation preference of $9,485 at December 31, 2015	-	8
6.25% Series C, 3,000,000 shares authorized, $.01 par value, 3,000,000 shares outstanding, liquidation preference of $34,492 at December 31, 2015	-	30
6.25% Series D, 6,700,000 shares authorized, $.01 par value, 6,245,156 shares outstanding, liquidation preference of $62,452 at September 30, 2016	61,335	-
Common stock, $.01 par value, 200,000,000 shares authorized; 4,952,190 and 4,941,878 shares outstanding	49	49
Additional paid-in capital	118,580	138,387
Accumulated deficit	(115,440)	(105,858)
Total Shareholders' Equity	64,524	32,616
Noncontrolling interest in consolidated partnership (Condor Hospitality Limited Partnership), redemption value of $1,819 and $1,197	2,635	1,879
Total Equity	67,159	34,495
Total Liabilities and Equity	$ 138,964	$ 142,346

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Revenue				
Room rentals and other hotel services	$ 13,519	$ 15,895	$ 40,177	$ 45,320
Operating Expenses				
Hotel and property operations	9,452	11,076	29,052	32,971
Depreciation and amortization	1,398	1,099	4,096	3,836
General and administrative	1,367	1,451	4,092	4,183
Acquisition and terminated transactions	228	177	375	194
Terminated equity transactions	-	180	-	180
Total operating expenses	12,445	13,983	37,615	41,364
Operating income	1,074	1,912	2,562	3,956
Net gain on disposition of assets	3,591	2,927	15,814	2,801
Equity in loss of joint venture	(54)	-	(54)	-
Net gain on derivatives and convertible debt	26	7,895	6,305	8,008
Other income (expense)	85	(4)	87	122
Interest expense	(1,127)	(1,137)	(3,704)	(4,194)
Loss on debt extinguishment	(399)	(104)	(1,548)	(111)
Impairment recovery (loss)	(343)	313	(1,257)	(3,517)
Earnings from continuing operations before income taxes	2,853	11,802	18,205	7,065
Income tax expense	-	-	-	-
Earnings from continuing operations	2,853	11,802	18,205	7,065
Gain from discontinued operations, net of tax	-	152	678	2,440
Net earnings	2,853	11,954	18,883	9,505
Earnings attributable to noncontrolling interest	(61)	(724)	(628)	(721)
Net earnings attributable to controlling interests	2,792	11,230	18,255	8,784
Dividends declared and undeclared and in kind dividends deemed on preferred stock	(976)	(914)	(19,773)	(2,707)
Net earnings (loss) attributable to common shareholders	$ 1,816	$ 10,316	$ (1,518)	$ 6,077
Earnings per Share				
Continuing operations - Basic	$ 0.37	$ 2.06	$ (0.44)	$ 0.79
Discontinued operations - Basic	-	0.03	0.13	0.46
Total - Basic Earnings per Share	$ 0.37	$ 2.09	$ (0.31)	$ 1.25
Continuing operations - Diluted	$ 0.06	$ 0.12	$ (0.44)	$ (0.11)
Discontinued operations - Diluted	-	0.01	0.13	0.09
Total - Diluted Earnings per Share	$ 0.06	$ 0.13	$ (0.31)	$ (0.02)

See accompanying notes to consolidated financial statements.

Condor Hospitality Trust, Inc. and Subsidiaries
Consolidated Statements of Equity
(Unaudited - In thousands)

	Nine months ended September 30, 2015								
	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, 2014	3,803	$ 38	4,693	$ 47	$ 137,900	$ (118,983)	$ 19,002	$ 90	$19,092
Stock-based compensation	-	-	11	-	103	-	103	-	103
Long-term incentive plan	-	-	-	-	-	-	-	99	99
Issuance of common stock	-	-	228	2	344	-	346	-	346
Net earnings	-	-	-	-	-	8,784	8,784	721	9,505
Balance at September 30, 2015	3,803	$ 38	4,932	$ 49	$ 138,347	$ (110,199)	$ 28,235	$ 910	$29,145

	Nine months ended September 30, 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	4,942	$ 49	$ 138,387	$ (105,858)	$ 32,616	$ 1,879	$ 34,495
Stock-based compensation	-	-	10	-	100	-	100	-	100
Long-term incentive plan	-	-	-	-	-	-	-	128	128
Common stock dividends declared ($0.04 per share)	-	-	-	-	-	(198)	(198)	-	(198)
Series D Preferred dividends declared	-	-	-	-	-	(2,115)	(2,115)	-	(2,115)
Redemption of Series A and B Preferred Stock	(803)	(8)	-	-	(7,390)	(5,107)	(12,505)	-	(12,505)
Exchange of Series C Preferred and issuance of Series D Preferred Stock	3,245	61,305	-	-	(12,517)	(20,417)	28,371	-	28,371
Net earnings	-	-	-	-	-	18,255	18,255	628	18,883
Balance at September 30, 2016	6,245	$ 61,335	4,952	$ 49	$ 118,580	$ (115,440)	$ 64,524	$ 2,635	$ 67,159

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2016	**2015**
Cash flows from operating activities:		
Net earnings	$ 18,883	$ 9,505
Adjustments to reconcile net earnings to net cash provided by operating activities:		-
Depreciation and amortization expense	4,096	3,836
Net gain on disposition of assets	(16,495)	(4,466)
Net gain on derivatives and convertible debt	(6,305)	(8,008)
Equity in loss of joint venture	54	-
Amortization of deferred financing costs	492	600
Loss on extinguishment of debt	1,548	111
Impairment loss	1,257	3,397
Stock-based compensation and long term incentive plan expense	228	202
Amortization of warrant issuance cost	12	43
Changes in operating assets and liabilities:		
(Increase) decrease in assets	(687)	16
Increase in liabilities	1,038	887
Net cash provided by operating activities	4,121	6,123
Cash flows from investing activities:		
Additions to hotel properties	(2,784)	(2,912)
Investment in joint venture	(9,280)	-
Deposits for franchise fees and hotel acquisitions	(288)	(370)
Proceeds from sale of hotel assets	33,374	39,828
Net changes in capital expenditure escrows	709	(206)
Net cash provided by investing activities	21,731	36,340
Cash flows from financing activities:		
Deferred financing costs	(29)	(512)
Principal payments on long-term debt	(23,026)	(30,854)
Proceeds from long-term debt	-	8,300
Payments on revolving debt	(10,238)	(30,796)
Proceeds from revolving debt	10,131	25,803
Debt early extinguishment penalties	(1,268)	-
Series D Preferred Stock issuance	28,884	-
Series A and B Preferred Stock redemption, including accumulated dividends	(20,167)	-
Cash dividends paid to common shareholders	(49)	-
Cash dividends paid to Series C and D Preferred shareholders	(3,598)	-
Proceeds from common stock issued in rights offering	-	346
Other items	(7)	-
Net cash used in financing activities	(19,367)	(27,713)
Increase in cash and cash equivalents	6,485	14,750
Cash and cash equivalents, beginning of period	4,870	173
Cash and cash equivalents, end of period	$ 11,355	$ 14,923
Supplemental cash flow information:		
Interest paid	$ 3,312	$ 3,941
Schedule of noncash investing and financing activities:		
In kind dividends deemed on preferred stock	$ 20,218	$ -

See accompanying notes to consolidated financial statements.

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Condor Hospitality Trust, Inc. ("CDOR," "Condor," or the "Company"), which until July 15, 2015 was formerly named Supertel Hospitality, Inc., was incorporated in Virginia on August 23, 1994 and was reincorporated in Maryland on November 19, 2014. CDOR is a self-administered real estate investment trust ("REIT") for federal income tax purposes that specializes in the investment and ownership of high quality select service, limited service, extended stay, and compact full service hotels. As of September 30, 2016, the Company owned 28 hotels in 14 states, including one hotel owned through an 80% interest in an unconsolidated joint venture ("Atlanta JV").

Condor, through its wholly owned subsidiary, Condor Hospitality REIT Trust (formerly Supertel Hospitality REIT Trust), owns a controlling interest in Condor Hospitality Limited Partnership ("CHLP") (formerly Supertel Limited Partnership). CHLP, including its various subsidiary partnerships, holds substantially all of the Company's assets (with the exception of the furniture and equipment of 20 properties held by TRS Leasing, Inc.) and conducts all of its operations. At September 30, 2016, the Company owned 97.9% of the partnership operating units ("partnership units") of CHLP with the remaining partnership units owned by other limited partners and long-term incentive plan unit holders. The Company's 100% owned E&P Financing Limited Partnership no longer owns any assets or conducts any operations following the sale of its last remaining property in January 2016.

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, CHLP 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. CHLP, the TRS, and their respective subsidiaries are consolidated into the Company's financial statements. References to "we," "our," and "us" herein refer to Condor Hospitality Trust, Inc., including, as the context requires, its direct and indirect subsidiaries.

Historically, as a result of the geographic areas in which we operate, the operations of our hotels have been seasonal in nature. Generally, occupancy rates, revenue, and operating income have been greater in the second and third quarters of the calendar year than in the first and fourth quarters, with the exception of our hotels located in Florida, which experience peak demand in the first and fourth quarters annually. The results of the hotels acquired in October 2015 and through our Atlanta JV in August 2016 (see Notes 2 and 3), because of their locations and chain scale, are expected to be less seasonal in nature than our legacy portfolio of assets.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and include the accounts of the Company, as well as the accounts of CHLP and its subsidiaries and our wholly owned TRS and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the general instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. These unaudited consolidated financial statements include all adjustments considered necessary for a fair presentation of the financial statements for the periods presented. Interim results are not necessarily indicative of full-year performance for the year ending December 31, 2016 or any future period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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 the real estate market can significantly impact hotel operating 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 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.

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 prior to that balance sheet date, 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.

Historically, we have presented the results of operations of hotel properties that have been sold or are considered held for sale as discontinued operations in all periods presented. In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in ASU 2014-08 changed 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 this pronouncement on October 1, 2014. As a result of this adoption, only the operations of hotels meeting the criteria to be considered held for sale prior to October 1, 2014 are included in discontinued operations for all periods presented as no individual hotel disposition represents a strategic shift in operations or has a major effect on our operations or financial results.

Impairment Losses

On a quarterly basis, the Company reviews the carrying value of each held for use hotel to determine if certain circumstances, known as triggering events, exist indicating impairment to the carrying value of the hotel or that depreciation periods should be modified. These triggering events include a significant change in the cash flows of or a significant adverse change in the business climate for a hotel. If facts or circumstances support the possibility

of impairment, the Company will prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel and determine if the investment in such hotel is recoverable based on these undiscounted future cash flows. If the investment is not recoverable based on this analysis, an impairment charge will be taken, if necessary, to reduce the carrying value of the hotel to the hotel's fair value.

At the end of each reporting period, if the fair value of a 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 decision not to sell.

Income Taxes

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. 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 the 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.

Fair Value Measurements

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

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

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

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

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

With the exception of fixed rate debt (see Note 7) 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 6).

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 (see Note 9).

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 CHLP now meets the criteria to be considered a VIE of which the Company is the primary beneficiary and, accordingly, the Company continues to consolidate CHLP. The Company's sole significant asset is its investment in CHLP, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of CHLP. All of the Company's debt is an obligation of CHLP. This ASU was also used in the determination of the accounting for the Atlanta JV entered into in August 2016 (see Note 3).

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 sheet as a direct deduction from the associated debt liability. The Company adopted this standard on January 1, 2016 and presents all debt issuance costs, other than issuance costs related to its revolving credit facility, 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 sheet. 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. For the amounts of the reclassification, see Note 5.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The original updated accounting guidance was effective for annual and interim reporting periods in fiscal years beginning after December 15, 2016, however, in July 2015, the FASB approved a one year delay of the effective date to fiscal years beginning after December 15, 2017. As such, the standard will be effective for the Company on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition

method. The Company has begun to evaluate each of its revenue streams under the new model. Based on preliminary assessments, the Company does not expect the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

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, 2019, permits early adoption, and mandates a modified retrospective transition method. The Company is required to adopt ASU 2016-02 on January 1, 2020. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

Reclassifications

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

Beginning in the first quarter of 2016, we have revised the classification of cash payments for debt prepayment or extinguishment penalties in our statements of cash flows from where they were previously presented as operating cash flows to financing cash flows. We have concluded that this classification is preferable as these payments are closely related to other financing cash flows, such as the repayment of debt, and reflect the impact of financing decisions made by management. This revised policy is also consistent with the ASU 2016-15, *Statement of Cash Flows*, which was issued in August 2016 and becomes effective for the Company on January 1, 2018. This revision in classification had the effect of increasing operating cash flows and decreasing financing cash flows by $1,268 and $111 during the nine months ended September 30, 2016 and 2015, respectively.

Liquidity

We expect to meet our short-term liquidity requirements through net cash provided by operations, existing cash balances and working capital, short-term borrowings under our revolving credit agreement with Great Western Bank, and the release of restricted cash upon the satisfaction of usage requirements. At September 30, 2016, the Company had $11,355 of cash and cash equivalents on hand and $1,566 of unused availability under its revolving credit agreement. 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 D Preferred Stock. We presently expect to invest approximately $4,500 to $6,000 in capital expenditures related to hotel properties we currently own through December 31, 2017.

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 and proceeds from public or private issuances of debt or equity securities.

Prior to the consideration of any asset sales or our ability to refinance debt subsequent to September 30, 2016, contractual principal payments on our debt outstanding, including normal amortization, total $26,939 through

(Unaudited – In thousands, except share and per share data)

December 31, 2017, including the February 1, 2017 maturity of one of our Western Alliance Bank ("WAB") loans with a balance at September 30, 2016 of $10,409, the November 6, 2017 maturity of our Cantor Commercial Real Estate Lending loan with a balance at September 30, 2016 of $5,742, and the December 1, 2017 maturity of our Morgan Stanley Mortgage Capital Holdings, LLC loan with a balance at September 30, 2016 of $9,600. Prior to these maturities, the Company anticipates refinancing these loans with the existing lenders or another lender. As a result of our improved financial condition and the terms of the lending arrangements we have entered into in recent periods, we believe we will be able to refinance this debt on similar or perhaps more favorable terms, even if interest rates increase as a result of future Federal Reserve actions. However, notwithstanding our perception, we may not be successful in our efforts to refinance or repay our maturing debt.

Additionally, at September 30, 2016, we have 11 hotels held for sale which, if sold, we believe will generate approximately $14,900 in net proceeds after debt repayment. Since December 1, 2008, we have sold 102 hotels. Although it is management's plan to use net proceeds after debt repayment from future asset sales to fund future acquisitions, if necessary the Company believes that cash generated from asset dispositions will be sufficient to fund any shortfalls associated with future debt maturities. However, with respect to future hotel sales, we cannot predict whether we will be able to find buyers for identified assets at prices and other terms acceptable to us, whether potential buyers will be able to secure financings, and the length of time needed to find a buyer and to close the sale of a property.

NOTE 2. INVESTMENT IN HOTEL PROPERTIES AND ACQUISITION OF HOTEL PROPERTIES

Investments in hotel properties consisted of the following at September 30, 2016 and December 31, 2015:

	As of					
	September 30, 2016			December 31, 2015		
	Held for sale	Held for use	Total	Held for sale	Held for use	Total
Land	$ 2,797	$ 12,787	$ 15,584	$ 6,078	$ 12,789	$ 18,867
Acquired below market lease intangibles	-	883	883	-	883	883
Buildings, improvements, vehicle	24,865	88,052	112,917	50,571	87,535	138,106
Furniture and equipment	6,833	14,931	21,764	14,656	15,932	30,588
Construction-in-progress	46	625	671	171	284	455
Investment in hotel properties	34,541	117,278	151,819	71,476	117,423	188,899
Less accumulated depreciation	(15,452)	(25,244)	(40,696)	(34,571)	(23,629)	(58,200)
Investment in hotel properties, net	$ 19,089	$ 92,034	$ 111,123	$ 36,905	$ 93,794	$ 130,699

The Company had no acquisitions of wholly owned properties during the three or nine months ended September 30, 2016 or 2015. On August 1, 2016, the Company entered into the 80% owned Atlanta JV, which then acquired one hotel (see Note 3).

On August 29, 2016, the Company entered into a hotel purchase agreement to purchase an Aloft hotel in Leawood, Kansas, for $22,500. As of September 30, 2016, $225 of restricted cash has been deposited into an escrow account as earnest money against the purchase price. The closing of the acquisition is subject to customary closing conditions including accuracy of representations and warranties and compliance with covenants and obligations and is expected to occur in the fourth quarter of 2016.

Pro Forma Results

The Company acquired three hotel properties with a combined purchase price of $42,500 on October 1 and 2, 2015 and entered into the Atlanta JV which then acquired one hotel in August of 2016 (see Note 3). The following condensed pro forma financial data is presented as if all acquisitions completed in 2015 had been completed on January 1, 2014 and as if the JV entered into in August 2016 had been entered into as of January 1, 2015. Supplemental pro forma earnings were adjusted to exclude all acquisition expense recognized in the periods presented as if these acquisition costs had been incurred in prior periods, including acquisition expenses totaling $280 incurred by the Atlanta JV during the three months ended September 30, 2016. 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. The condensed pro

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forma financial data is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated on January 1, 2014, nor do they purport to represent the results of operations for future periods.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Total revenue	$ 13,519	$ 18,775	$ 40,177	$ 54,007
Operating income	$ 1,302	$ 2,520	$ 2,937	$ 5,586
Net earnings (loss) attributable to common shareholders	$ 2,342	$ 10,766	$ (215)	$ 7,481
Net earnings (loss) per share attributable to common shareholders - Basic	$ 0.47	$ 2.18	$ (0.04)	$ 1.54
Net earnings (loss) per share attributable to common shareholders - Diluted	$ 0.08	$ 0.15	$ (0.04)	$ 0.04

NOTE 3: 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 a 254-room Aloft hotel in downtown Atlanta, Georgia. The Company accounts for the Atlanta JV under the equity method. Condor 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 CHLP 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. The process for valuing and recording the assets and liabilities obtained in this transaction is not yet complete. As such, these values are currently preliminary and subject to adjustment throughout the completion of the measurement period, which will be completed within one year of closing the transaction.

Land	Buildings, improvements, and vehicle	Furniture and equipment	Land option (1)	Total purchase price	Debt originated at acquisition	Net cash
$ 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 certain conditions and fees. The interest rate is a floating rate calculated on the one-month LIBOR plus 5.0%, and as a condition to closing, the Atlanta JV purchased a LIBOR cap of 3.0%. The current interest rate on the loan is 5.31%. 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

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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 $46 for the three and nine months ended September 30, 2016.

Net cash flow and profits from the Atlanta JV will be 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. Losses are allocated based on pro-rata equity ownership. 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.

The following tables represent the total assets, liabilities, equity, and components of net income (loss), including the Company's share, of the Atlanta JV as of and for the three and nine months ended September 30, 2016:

	As of September 30, 2016
Investment in hotel properties, net	$ 49,659
Cash and cash equivalents	1,377
Restricted cash, property escrows	648
Accounts receivable, prepaid expenses, and other assets	462
Total Assets	$ 52,146
Accounts payable, accrued expenses, and other liabilities	$ 1,318
Land option liability	6,190
Long-term debt, net of deferred financing costs	33,105
Total Liabilities	40,613
Condor equity	9,226
TWC equity	2,307
Total Equity	11,533
Total Liabilities and Equity	$ 52,146

	For the three and nine months ended September 30, 2016
Revenue	
Room rentals and other hotel services	$ 1,310
Operating Expenses	
Hotel and property operations	739
Depreciation and amortization	118
Acquisition and terminated transactions	280
Total operating expenses	$ 1,137
Operating income	173
Other expense	(1)
Interest expense	(239)
Net loss	$ (67)
Condor allocated loss	$ (54)
TWC allocated loss	(13)
Net loss	$ (67)

(Unaudited – In thousands, except share and per share data)

NOTE 4: DISPOSITIONS OF HOTEL PROPERTIES AND DISCONTINUED OPERATIONS

As of September 30, 2016, the Company had 11 hotels classified as held for sale. At June 30, 2016, the Company had 17 hotels held for sale and during the three months ended September 30, 2016 sold four properties, classified two additional hotels as held for sale, and reclassified four properties into held for use. At December 31, 2015, the Company had 16 hotels held for sale and during the nine months ended September 30, 2016 sold 15 properties, classified 12 additional hotels as held for sale, and reclassified two properties into held for use. The properties that were reclassified into held for use during the periods presented were done so due to changes in market conditions as well as ongoing consideration given to the operating results of the held for sale properties versus their expected selling prices.

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), none of which remain unsold at September 30, 2016, are included in discontinued operations with all other hotels, including those subsequently sold or classified as held for sale, reported in continuing operations. For the three months ended September 30, 2016 and 2015, the results of 31 and 47 hotels, respectively, were included in continuing operations and the results of no hotels and two hotels, respectively, were included in discontinued operations. For the nine months ended September 30, 2016 and 2015, the results of 41 and 47 hotels, respectively, were included in continuing operations and the results of one hotel and nine hotels, respectively, were included in discontinued operations.

In the three months ended September 30, 2016 and 2015, the Company sold four hotels in each period, resulting in total gains of $3,632 and $2,966, respectively, all of which were included in continuing operations. In the nine months ended September 30, 2016 and 2015, the Company sold 15 and 11 hotels, respectively, resulting in total gains of $16,577 and $4,633, respectively, of which $15,896 and $2,966, respectively, was included in continuing operations.

Two hotels in Alexandria, Virginia, which, based on their size, represent a significant disposition for which results are included in continuing operations, were sold on July 13, 2015. For the three and nine months ended September 30, 2015, the Alexandria Comfort Inn and Days Inn hotels had a combined net earnings (loss) of $198 and ($821), respectively, and earnings (loss) attributable to noncontrolling interest of $14 and ($846), respectively. These amounts include impairment expense (recovery) of ($289) and $1,020 that was recognized in the three and nine months ended September 30, 2015, respectively, following the hotels' classification as held for sale in the first quarter of 2015.

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 disposal transactions. The following table sets forth the components of discontinued operations for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	$ -	$ 526	$ 6	$ 2,526
Hotel and property operations expense	-	(341)	(4)	(1,679)
Net gain (loss) on disposition of assets	-	(1)	681	1,665
Interest expense	-	(32)	(5)	(192)
Impairment recovery	-	-	-	120
Gain from discontinued operations, net of tax	$ -	$ 152	$ 678	$ 2,440
Capital expenditures	$ -	$ -	$ -	$ 58

(Unaudited – In thousands, except share and per share data)

NOTE 5. LONG-TERM DEBT

During the three and nine months ended September 30, 2016, net proceeds from the Company's hotel sales (see Note 4) were used to pay off the associated loans totaling $5,293 and $21,149, respectively, to reduce the balance of the revolving credit facility with Great Western Bank, and set aside to fund future acquisitions. These dispositions, as well as adjustments required to remain in compliance with the required debt service coverage ratio, decreased the total availability under the Great Western Bank revolver from $5,733 at December 31, 2015 to $1,566 at September 30, 2016.

Long-term debt related to wholly owned properties, including debt related to hotel properties held for sale, consisted of the following loans payable at September 30, 2016 and December 31, 2015:

Lender	Balance at September 30, 2016	Interest rate at September 30, 2016	Maturity	Amortization provision	Properties encumbered at September 30, 2016	Balance at December 31, 2015
Fixed rate debt						
Western Alliance Bank (1)	$ 10,409	7.17%	02/2017	15 years	5	$ 10,819
Western Alliance Bank (1)	2,864	4.75%	02/2018	15 years	2	3,864
Cantor Commercial Real Estate Lending	5,742	4.25%	11/2017	30 years	1	5,826
Morgan Stanley Mortgage Capital Holdings, LLC	9,600	5.83%	12/2017	25 years	10	27,542
Total fixed rate debt	28,615					48,051
Variable rate debt						
Great Western Bank (7)	-	4.50% (2)	06/2018	Interest only	2	3,215
Western Alliance Bank (1)	4,908	4.09% (3)	11/2020	25 years	1	4,990
Western Alliance Bank (1)	9,914	4.09% (3)	11/2020	25 years	1	10,079
The Huntington National Bank	9,806	2.71% (4)	11/2020	25 years	4	9,981
LMREC 2015 - CREI, Inc. (Latitude)	11,160	6.88% (5)	05/2018	$12 monthly (6)	1	11,220
Total variable rate debt	35,788				27	39,485
Total long-term debt	$ 64,403					$ 87,536
Less: Deferred financing costs	(820)					(1,525)
Total long-term debt, net of deferred financing costs	63,583					86,011
Less: Long-term debt related to hotel properties held for sale, net of deferred financing costs of $130 and $545	(10,900)					(30,235)
Long-term debt related to hotel properties held for use, net of deferred financing costs of $690 and $980	$ 52,683					$ 55,776

(1) This debt, previously owned by GE Capital Franchise Finance Corporation, was sold to Western Alliance Bank in April 2016
(2) Prime rate plus 1%
(3) 90-day LIBOR plus 3.25%
(4) 30-day LIBOR plus 2.25%, fixed at 4.13% after giving effect to interest rate swap (see Note 7)
(5) 30-day LIBOR plus 6.25%, 30-day LIBOR capped at 1% after giving effect to market rate cap (see Note 7)
(6) $12 monthly payment began May 2016
(7) Total availability under this revolving credit facility was $1,566 at September 30, 2016; commitment fee on unused facility is 0.25%

(Unaudited – In thousands, except share and per share data)

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 remainder of 2016 and thereafter are as follows:

	Held for sale	Held for use	Total
Remainder of 2016	$ 213	$ 416	$ 629
2017	6,215	20,095	26,310
2018	2,519	11,595	14,114
2019	60	547	607
2020	2,023	20,720	22,743
Total	$ 11,030	$ 53,373	$ 64,403

Financial Covenants

The Company's debt agreements contain requirements as to the maintenance of minimum levels of debt service and fixed charge coverage and required loan-to-value and leverage ratios, and place certain restrictions on dividends. As of September 30, 2016, we were in compliance with our financial covenants.

If we fail to pay our indebtedness when due, fail to comply with covenants or otherwise default on our loans, unless waived, we could incur higher interest rates during the period of such loan defaults, be required to immediately pay our indebtedness, and ultimately lose our hotels through lender foreclosure if we are unable to obtain alternative sources of financing with acceptable terms. Our Great Western Bank and certain of our WAB facilities contain cross-default provisions which would allow Great Western Bank and WAB to declare a default and accelerate our indebtedness to them if we default on our other loans and such default would permit that lender to accelerate our indebtedness under any such loan. As of September 30, 2016, we are not in default of any of our loans.

NOTE 6: 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") (see Note 9), 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. If the Series D Preferred Stock is outstanding, RES at its option may at any time elect to convert the Note, in whole or part, by notice delivered to the Company, into a number of shares of Series D Preferred Stock determined by dividing the principal amount of the Note to be converted by $10.00. Any time the Series D Preferred Stock is required by its terms to be converted into common stock of the Company (see Note 9), the Note will be automatically converted into the number of shares of common stock that RES would have received had RES converted this Note into Series D Preferred Stock immediately prior to the conversion of the Series D Preferred Stock. Any such conversion shall be reduced such that RES, together with its affiliates, does not beneficially own more than 49% of the voting stock of the Company and shall reduce the principal amount of the Note proportionally.

The Company has made an irrevocable election to record this Convertible Debt 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. Losses related to this Note were recognized totaling $45 and $224 during the three and nine months ended September 30, 2016, respectively. The fair value of the Note is determined using a Monte Carlo simulation model. 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. 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.

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The following table represents the difference between the fair value and the unpaid principal balance of the Note as of September 30, 2016:

	Fair value as of September 30, 2016	Unpaid principal balance as of September 30, 2016	Fair value carrying amount over/(under) unpaid principal
6.25% Convertible Debt	$ 1,236	$ 1,012	$ 224

NOTE 7: 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 September 30, 2016, the Company's convertible debt (see Note 6) and certain derivative instruments were the only financial instruments measured in the financial statements at fair value on a recurring basis. Nonrecurring fair value measurements were utilized in the accounting for the Company's equity transactions that occurred in March 2016 (see Note 9), in the acquisition accounting performed by the Atlanta JV in the third quarter of 2016 (see Note 3), and in the valuation of impaired hotels during the three and nine months ended September 30, 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 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 expectations 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 transacting with major creditworthy financial institutions. These interest rate positions at September 30, 2016 are as follows:

Associated debt	Type	Terms	Effective date	Maturity date	Notional amount at September 30, 2016
Huntington	Swap	Swaps 30-day LIBOR + 2.25% for fixed rate of 4.13 % cancellable at Company's option anytime after 11/01/2018 without penalty	11/2015	11/2020	$ 9,806 (1)
Latitude	Cap	Caps 30-day LIBOR at 1.00%	03/2016	06/2017	$ 11,160 (1)

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

Additionally, prior to the execution of the Exchange Agreement (see Note 9) 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 of $8.00 per share.

Similarly, at December 31, 2015, 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 9) also included an antidilution provision that required a reduction in the warrant's exercise price of $9.60 should the conversion ratio of the Series C Preferred Stock be adjusted due to its antidilution provisions. Accordingly, the warrants did not qualify for equity classification, and, as a result, the fair value of the warrants was shown as a derivative liability on the consolidated balance sheet. With the execution of the Exchange Agreement, this provision of these warrants was effectively eliminated and the conversion price was locked permanently at its current amount on the date of the extinguishment of the Series C Preferred Stock ($1.92). Following this modification of terms, the warrants qualify for equity

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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 the derivative liabilities recognized in connection with the Series C Preferred Stock was determined using the Monte Carlo simulation method.

All derivatives recognized by the Company are reported as derivative liabilities on the consolidated 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 consolidated statements of operations. Net gains of $71 and $7,895 were recognized related to derivative instruments for the three months ended September 30, 2016 and 2015, respectively. Net gains of $6,529 and $8,008 were recognized related to derivative instruments for the nine months ended September 30, 2016 and 2015, respectively.

Recurring Fair Value Measurements

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

	Fair value at September 30, 2016	Level 1	Level 2	Level 3
Interest rate derivatives	$ 190	$ -	$ 190	$ -
Convertible debt	1,236	-	-	1,236
Total	$ 1,426	$ -	$ 190	$ 1,236

	Fair value at December 31, 2015	Level 1	Level 2	Level 3
Series C Preferred embedded derivative	$ 6,271	$ -	$ -	$ 6,271
RES warrant derivative	2,411	-	-	2,411
Interest rate derivatives	77	-	77	-
Total	$ 8,759	$ -	$ 77	$ 8,682

There were no transfers between levels during the three or nine months ended September 30, 2016 or 2015.

(Unaudited – In thousands, except share and per share data)

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 consolidated statements of operations during the periods:

	Three months ended September 30,			
	2016	2015		
	Convertible debt	Series C Preferred embedded derivative	RES warrant derivative	Total
Fair value, beginning of period	$ 1,191	$ 14,209	$ 6,015	$ 20,224
Net (gains) losses recognized in earnings	45	(5,217)	(2,678)	(7,895)
Purchase and issuances	-	-	-	-
Sales and settlements	-	-	-	-
Gross transfers into Level 3	-	-	-	-
Gross transfers out of Level 3	-	-	-	-
Fair value, end of period	$ 1,236	$ 8,992	$ 3,337	$ 12,329
Total unrealized (gains) losses during the period included in earnings related to instruments held at end of period	$ 45	$ (5,217)	$ (2,678)	$ (7,895)

	Nine months ended September 30,						
	2016				2015		
	Series C Preferred embedded derivative	RES warrant derivative	Convertible debt	Total	Series C Preferred embedded derivative	RES warrant derivative	Total
Fair value, beginning of period	$ 6,271	$ 2,411	$ -	$ 8,682	$ 13,804	$ 6,533	$20,337
Net (gains) losses recognized in earnings	(4,848)	(1,800)	224	(6,424)	(4,812)	(3,196)	(8,008)
Purchase and issuances	-	-	1,012	1,012	-	-	-
Sales and settlements	(1,423)	-	-	(1,423)	-	-	-
Gross transfers into Level 3	-	-	-	-	-	-	-
Gross transfers out of Level 3 (1)	-	(611)	-	(611)	-	-	-
Fair value, end of period	$ -	$ -	$ 1,236	$ 1,236	$ 8,992	$ 3,337	$12,329
Total unrealized (gains) losses during the period included in earnings related to instruments held at end of period	$ -	$ -	$ 224	$ 224	$ (4,812)	$ (3,196)	$(8,008)

(1) RES warrants were permanently reclassified to additional paid-in capital as discussed above

Fair Value of Long-Term Debt

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

	Carrying value as of		Estimated fair value as of	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Held for use	$ 52,683	$ 55,776	$ 53,563	$ 57,457
Held for sale	10,900	30,235	11,159	31,822
Total	$ 63,583	$ 86,011	$ 64,722	$ 89,279

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Impaired Hotel Properties

In the performance of impairment analysis for both held for sale and held for use properties, fair value is determined with the assistance of independent real estate brokers and through the use of revenue multiples based on the Company's experience with hotel sales as well as available industry information. For held for sale properties, estimated selling costs are based on our experience with similar asset sales. These are considered Level 3 inputs. All impairment in the table below related to held for use properties relates to impairments taken when those properties were previously held for sale or upon their reclassified to held for use. The amount of impairment and recovery of previously recorded impairment recognized in the three and nine months ended September 30, 2016 and 2015 is shown in the tables below:

	Three months ended September 30,			
	2016		2015	
	Number of hotels	Impairment (loss) recovery	Number of hotels	Impairment (loss) recovery
Continuing Operations:				
Held for use hotels:				
Impairment recovery	-	$ -	1	$ 6
Impairment loss	1	(35)	1	(5)
Held for sale hotels:				
Impairment loss	2	(308)	-	-
Impairment recovery	-	-	1	23
Sold hotels:				
Impairment recovery	-	-	1	289
Net impairment (loss) recovery reported in continuing operations	3	$ (343)	4	$ 313
Total net impairment (loss) recovery:	3	$ (343)	4	$ 313

	Nine months ended September 30,			
	2016		2015	
	Number of hotels	Impairment (loss) recovery	Number of hotels	Impairment (loss) recovery
Continuing Operations:				
Held for use hotels:				
Impairment loss	1	$ (204)	2	$ (1,989)
Held for sale hotels:				
Impairment loss	2	(1,053)	1	(513)
Sold hotels:				
Impairment loss	-	-	2	(1,101)
Impairment recovery	-	-	1	86
Net impairment loss reported in continuing operations	3	$ (1,257)	6	$ (3,517)
Discontinued Operations:				
Sold hotels:				
Impairment loss	-	$ -	1	$ (117)
Impairment recovery	-	-	3	237
Net impairment recovery reported in discontinued operations	-	$ -	4	$ 120
Total net impairment loss:	3	$ (1,257)	10	$ (3,397)

NOTE 8: COMMON STOCK

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

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

NOTE 9: PREFERRED STOCK

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

- the issuance and sale of Condor'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 Condor's outstanding Series C Preferred Stock for Series D Preferred Stock; and
- the cash redemption of all of Condor'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 Condor 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 Condor.

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, Condor (a) paid to RES an amount of cash equal to $1,484, (b) issued to RES 245,156 shares of Series D Preferred Stock (such that RES, IRSA and their affiliates do not beneficially own in excess of 49% of the voting stock of Condor) and (c) issued to RES a convertible promissory note, bearing interest at 6.25% per annum, in the principal amount of $1,012 (see Note 6).

Pursuant to the Stock Purchase Agreement, on April 15, 2016, Condor 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
- 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.

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 the 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. Accumulated but unpaid dividends were $1,452, or $1.807 per share, as of December 31, 2015, and were not reflected as an obligation on the balance sheet on that date.

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 nine months ended September 30, 2016 as the amount is considered a deemed dividend on the Series A Preferred Stock. Of this amount, $874 for the nine months ended September 30, 2016 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 Redeemable Preferred Stock

At December 31, 2015, there were 332,500 shares of Series B Preferred Stock, 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 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. Unpaid dividends were $1,870, or $5.625 per share, as of December 31, 2015, and were not reflected as an obligation on the balance sheet on that date.

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 nine months ended September 30, 2016 as the amount is considered a deemed dividend on the Series B Preferred Stock. Of this amount, $911 for the nine months ended September 30, 2016 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 Convertible Preferred Stock and Warrants

The Company entered into a Purchase Agreement dated November 16, 2011 for the issuance and sale of Series C Preferred Stock and warrants 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 and 3,750,000 warrants to purchase shares of common stock. All of the Series C Preferred Stock and related warrants remained outstanding prior to the execution of the Exchange Agreement on March 16, 2016 as discussed above. The conversion price on the Series C Preferred Stock was $1.60 per share on that date and the exercise price of the warrants was $1.92 per share, which is equal to 120% of the adjusted conversion price of the Series C Preferred Stock.

Each share of Series C Preferred Stock was entitled to a dividend of $0.625 per year payable in equal quarterly dividends and had a liquidation preference of $10.00 per share, in cash, plus an amount equal to any accrued and unpaid 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. Accumulated but unpaid dividends were $4,492, or $1.497 per share, as of December 31, 2015, and were not reflected as an obligation on the balance sheet on that date.

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, $15,874 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.

Subsequent to the execution of the Exchange Agreement, the warrants issued to RES simultaneously with the issuance of the Series C Preferred Stock remain outstanding through their original expiration date of January 31, 2017 at a fixed exercise price of $1.92.

Series D Convertible 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.

The Series D Preferred stockholders rank senior to the Company's common stock and any other preferred stock issuances and receive 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 accrue whether or not the Company has earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared, and whether or not such dividends are prohibited by agreement. Whenever the dividends on the Series D Preferred Stock are in arrears for four consecutive quarters, then upon notice by holders of in the aggregate not less than 40% of the outstanding Series D Preferred Stock, the Company will (a) take all appropriate action reasonably within its means to maximize the assets legally available for paying such dividends and to monetize such assets (for example, but without limiting the generality of the foregoing, by selling or liquidating all of some of the Company's assets or by selling the Company as a going concern), (b) pay out of all such assets legally available (including any proceeds from any sale or liquidation of such assets) the maximum possible amount of such unpaid dividends, and (c) thereafter, at any time and from time to time when additional assets of the Company (including any proceeds from any sale or liquidation of such assets) become legally available to pay such unpaid dividends, pay such remaining unpaid dividends until all dividends accumulated on the Series D Preferred Stock have been fully paid. Dividends were paid on June 30, 2016 and September 30, 2016 which included all amounts due through those dates.

Each share of Series D Preferred Stock is 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 $1.60 into an amount equal to the $10.00 face value per share plus accrued and unpaid dividends, if any. The conversion price is subject to anti-dilution adjustments upon the occurrence of stock splits and stock dividends. Each outstanding share of Series D Preferred Stock will be converted into a number of shares of common stock determined by dividing the conversion price of $1.60 into the $10.00 face value per share, which is equal to a rate of 6.25 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 is redeemable by the Company at any time subject to certain restrictions, in whole or in a partial redemption of up to $30,000, at $12.00 per share on or before March 16, 2019, $13.00 per share from March 16, 2019 to March 16, 2020, and $14.00 per share on or after March 16, 2020, plus all accrued and unpaid dividends. If a Qualified Offering has not occurred on or before 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 has been exercised and the Company has been notified, the dividend rate on the Series D Preferred Stock after September 30, 2021 will increase

(Unaudited – In thousands, except share and per share data)

from 6.25% per annum to 12.5% per annum. The holders of Series D Preferred Stock vote their Series D Preferred Stock as a single class with the holders of the common stock on all matters submitted to such holders for vote or consent. For each such vote or consent, each share of Series D Preferred Stock entitles the holder to cast one vote for each whole vote (rounded to the nearest whole number) that such holder would be entitled to cast had such holder converted its Series D Preferred Stock into shares of common stock as of the date immediately prior to the record date for determining the shareholders of the Company eligible to vote on any such matter.

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

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:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Preferred A dividends accrued at stated rate	$ -	$ 184	$ 222	$ 540
Preferred A additional deemed dividends upon redemption	-	-	652	-
Preferred B dividends accrued at stated rate	-	208	243	624
Preferred B additional deemed dividends upon redemption	-	-	668	-
Preferred C dividends accrued at stated rate	-	522	455	1,543
Preferred C additional deemed dividends at exchange	-	-	15,419	-
Preferred D dividends accrued at stated rate	976	-	2,114	-
Dividends declared and undeclared and in kind dividends deemed on preferred stock	$ 976	$ 914	$ 19,773	$ 2,707

NOTE 10. NONCONTROLLING INTEREST OF PARTNERSHIP UNITS IN CHLP

Noncontrolling interest in CHLP represents the limited partners' proportionate share of the equity in the operating partnership and long-term incentive plan ("LTIP") units (see Note 11). Earnings and loss are allocated to noncontrolling interest in accordance with the weighted average percentage ownership of CHLP during the period.

Our ownership interest in CHLP as of September 30, 2016 was 97.9% and as of December 31, 2015 was 90.1%, which includes consideration of the partnership units of the limited partners as well as the LTIP units. The Company's increased ownership interest in CHLP during the nine months ended September 30, 2016 was a result of the contribution to CHLP of the proceeds from the Series D Preferred Stock issuance during the first quarter of 2016 which was partially offset by the proceeds used to redeem the Series A and B Preferred Stock, which were withdrawn from CHLP, in the second quarter of 2016. At both September 30, 2016 and December 31, 2015, 7,659,039 CHLP partnership units owned by minority interest holders were outstanding, which includes 2,395,887 of partnership units held by limited partners and 5,263,152 LTIP units outstanding which were not yet earned. The combined redemption value for the partnership units and LTIP units was $1,819 and $1,197 at September 30, 2016 and December 31, 2015, respectively.

Each limited partner of CHLP may, subject to certain limitations, require that CHLP redeem all or a portion of his or her partnership units at any time after a specified period following the date the units were acquired, by delivering a redemption notice to CHLP. When a limited partner tenders partnership units for redemption, the Company can, at its sole discretion, choose to purchase the units for either (1) a number of shares of Company common stock at a rate of one share of common stock for each eight partnership units redeemed or (2) cash in an amount equal to the

market value of the number of shares of Company common stock the limited partner would have received if the Company chose to purchase the units for common stock. No partnership units were redeemed during the three or nine months ended September 30, 2016 or 2015.

NOTE 11. STOCK-BASED COMPENSATION

The Company previously had in place 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 of up to 62,500 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 3,000,000, provided, however, that awards under this plan may not exceed 250,000 shares of common stock prior to the conversion into common stock of all shares of Series D Preferred Stock (see Note 9). During the three months ended September 30, 2016, 10,704 shares of common stock were issued to members of the Investment Committee of the Board of Directors under the 2016 Stock Plan.

Stock-based compensation for awards with a service condition only is measured based on the fair value of the award on the date of grant and recognized as compensation expense on a straight line basis over the service period. The compensation cost related to awards for which vesting is contingent upon achieving a market based criteria is measured at the fair value of the award on the date of grant, including consideration of the market criteria, and amortized on a straight line basis over the performance period. The fair value of the award at grant is measured using either the closing stock price on the date of grant (for vested and unvested share awards), the Black-Scholes model (for options and warrants), or a Monte Carlo simulation (for LTIP awards), as appropriate. 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 CHLP partnership units.

Options and Unvested Share Awards

At September 30, 2016, the Company had a total of 5,625 vested stock options with a weighted average exercise price of $7.53 per share outstanding under the 2006 Stock Plan and no unvested stock options or share awards.

Warrants

On March 2, 2015, the Company granted a warrant to an executive officer of the Company outside of the 2006 Stock Plan as an inducement material to the executive's acceptance of employment. The warrant entitled the executive to purchase a total of 657,894 authorized but previously unissued shares of the Company's common stock at a price of (i) $1.52 per share (the adjusted closing bid price of the common stock on Nasdaq on March 2, 2015) if at least one-third but not more than one-half of the shares were purchased on or prior to March 17, 2015, and (ii) $1.92 per share for shares purchased after that date. The warrant has a three-year term. The executive officer exercised the warrant in part to purchase 227,894 shares on March 11, 2015 at the price of $1.52 per share. The warrant remains exercisable for 430,000 shares at an exercise price of $1.92 per share. As of September 30, 2016, the total unrecognized compensation cost related to these warrants was $140, which is expected to be recognized over the next 17 months.

Long-Term Incentive Plan Awards

On March 2, 2015, the Company granted an equity award of 5,263,152 LTIP units, representing profit interests in CHLP, to an executive officer of the Company. The LTIP units are earned in one-third increments upon the Company's common stock achieving price per share milestones of $3.50, $4.50, and $5.50, respectively. Earned LTIP units vest in March 2018, or earlier upon a change in control of the Company, and upon vesting can be converted into CHLP partnership units which can be redeemed at the rate of one share of common stock for each eight earned LTIP units for up to 657,894 common shares. As of September 30, 2016, the total unrecognized

compensation cost related to these LTIP units was $242, which is expected to be recognized over the next 17 months.

Investment Committee Share Compensation

Independent directors serving as members of the Investment Committee of the Board of Directors receive their monthly Investment Committee fees in the form of shares of the Company's common stock if issuance is available under a shareholder approved stock plan, priced as the average of the closing price of the stock for the first 20 trading days of the calendar year. A total of 4,828 and 11,766 shares, respectively, were issued to the independent directors of the Investment Committee for the three and nine months ended September 30, 2015. Following shareholders' approval of the 2016 Stock Plan as discussed above, on July 15, 2016 the Company issued 10,704 shares of common stock to the independent directors of the Investment Committee for their service during the nine months ended September 30, 2016.

Stock-Based Compensation Expense

The expense recognized in the consolidated financial statements for stock-based compensation, including LTIP units, related to employees and directors for the three months ended September 30, 2016 and 2015 was $89 and $79, respectively, and for the nine months ended September 30, 2016 and 2015 was $228 and $202, respectively, all of which is included in general and administrative expense.

NOTE 12. INCOME TAXES

We have provided a full valuation allowance against our net deferred tax asset during all periods presented due to the uncertainty of realization resulting from past operating losses which results in no tax expense or benefit for the three and nine months ended September 30, 2016 and 2015. After consideration of limitations related to a change in control as defined under Internal Revenue Code Section 382 following the Company's 2012 transactions with RES (see Note 9), the TRS's net operating loss carryforward at September 30, 2016 as determined for federal income tax purposes was $5,237. The availability of the loss carryforwards will expire from 2022 through 2035.

(Unaudited – In thousands, except share and per share data)

NOTE 13. EARNINGS PER SHARE

The following is a reconciliation of basic and diluted earnings per common share ("EPS"):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Numerator: Basic (1)				
Net earnings (loss) attributable to common shareholders:				
Continuing operations - Basic	$ 1,816	$ 10,172	$ (2,173)	$ 3,822
Discontinued operations - Basic	-	144	655	2,255
Total Basic	$ 1,816	$ 10,316	$ (1,518)	$ 6,077
Numerator: Diluted (1)				
Net earnings (loss) attributable to common shareholders from continuing operations	$ 1,816	$ 10,172	$ (2,173)	$ 3,822
Dividends on Series C Preferred Stock	-	522	-	1,543
Dividends on Series D Preferred Stock	976	-	-	-
Preferred stock derivative liability change in fair market value	-	(5,217)	-	(4,812)
Warrant derivative liability change in fair market value	-	(2,678)	-	(3,196)
Interest and fair value adjustment on Convertible Debt	61	-	-	-
Continuing operations - Diluted	2,853	2,799	(2,173)	(2,643)
Discontinued operations - Diluted	-	144	655	2,255
Total Diluted	$ 2,853	$ 2,943	$ (1,518)	$ (388)
Denominator				
Weighted average number of common shares - Basic	4,950,339	4,927,503	4,944,027	4,868,610
Unvested stock awards	170	714	-	648
Series C Preferred Stock	-	18,750,000	-	18,750,000
Series D Preferred Stock	39,032,225	-	-	-
Warrants - Employees	-	5,745	-	5,745
Warrants - RES	-	(361,115)	-	(78,272)
Convertible Debt	632,249	-	-	-
Weighted average number of common shares - Diluted	44,614,983	23,322,847	4,944,027	23,546,731
Earnings per Share				
Continuing operations - Basic	$ 0.37	$ 2.06	$ (0.44)	$ 0.79
Discontinued operations - Basic	-	0.03	0.13	0.46
Total - Basic Earnings per Share	$ 0.37	$ 2.09	$ (0.31)	$ 1.25
Continuing operations - Diluted	$ 0.06	$ 0.12	$ (0.44)	$ (0.11)
Discontinued operations - Diluted	-	0.01	0.13	0.09
Total - Diluted Earnings per Share	$ 0.06	$ 0.13	$ (0.31)	$ (0.02)

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

(Unaudited – In thousands, except share and per share data)

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:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Outstanding stock options	5,625	5,625	5,625	5,625
Unvested stock awards	-	329	749	395
Warrants - RES	3,750,000	3,750,000	3,750,000	3,750,000
Warrants - Employees	430,000	430,000	430,000	335,147
Series C Preferred Stock	-	-	5,200,730	-
Series D Preferred Stock	-	-	28,348,222	-
Convertible Debt	-	-	459,188	-
LTIP partnership units (1)	657,894	657,894	657,894	513,302
SLP partnership units (1)	299,486	12,126	299,486	12,126
Total potentially dilutive securities excluded from the denominator	5,143,005	4,855,974	39,151,894	4,616,595

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

NOTE 14. 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 the 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 the hotels. The TRS also is responsible for obtaining and maintaining certain insurance policies with respect to the hotels.

Each of the management companies employed by the TRS at September 30, 2016 receive 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 three months ended September 30, 2016 and 2015, base management fees incurred totaled $434 and $517, respectively, of which $434 and $501, respectively, was included in continuing operations as hotel and property operations expense. Incentive management fees, included in continuing operations in their entirety, totaled $0 and $143, respectively, for the three months ended September 30, 2016 and 2015. For the nine months ended September 30, 2016 and 2015, base management fees incurred totaled $1,285 and $1,877, respectively, of which $1,285 and $1,770, respectively, was included in continuing operations as hotel and property operations expense. For the nine months ended September 30, 2016 and 2015, incentive management fees, included in continuing operations in their entirety, totaled $21 and $143, 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.

Franchise Agreements

As of September 30, 2016, 26 of our 27 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 $856 and $1,068, for the three months ended September 30, 2016 and 2015, respectively, all of which was included in continuing operations as hotel and property operations expense. Franchise fee expense totaled $2,499 and $3,040, respectively, for the nine months ended September 30, 2016 and 2015, of which $2,499 and $3,010, respectively, was included in continuing operations as hotel and property operations expense. The initial fees incurred to enter into the franchise agreements are capitalized and amortized over the life of the franchise agreements.

Leases

The Company assumed land lease agreements at the time of purchase related to three hotels owned at September 30, 2016. One lease requires monthly payments of the greater of $2 or 5% of room revenue. The second lease requires annual payments of $34, with approximately $3 increases every five years throughout 12 optional renewal periods and is associated with a held for sale property at September 30, 2016. The third lease requires annual lease payments of $13. Land lease expense totaled $31 and $27, respectively, for the three months ended September 30, 2016 and 2015, all of which was included in continuing operations as hotel and property operations expense. Land lease expense totaled $84 and $78, respectively, for the nine months ended September 30, 2016 and 2015, all of which was included in continuing operations as hotel and property operations expense.

The Company entered into office lease agreements in May of 2010 and December of 2011, each of which matures in 2016 with the option to renew an additional five years. In March 2016, the Company entered into a new office lease to replace one of these expiring office leases; the lease is a five year lease with rent not significantly different than that of the expiring lease. Effective June 1, 2016, the Company also entered into an additional new office lease with a 39 month lease term and monthly payments averaging $6. Office lease expense totaled $51 and $40 in the three months ended September 30, 2016 and 2015, respectively, and $145 and $120 in the nine months ended September 30, 2016 and 2015, respectively, and is included in general and administrative expense.

Obligation to RES

The Company had an obligation to RES to use $25,000 of the proceeds from its capital infusion in 2012 to pursue hotel acquisitions (see Note 9). There are no contractual restrictions or penalties related to the use of these funds for purposes other than acquisitions, but the Company was obligated to replace these funds promptly as it had the ability to do so. Following the completion of the three hotel acquisitions in 2015 (see Note 2) and the acquisition made through the Atlanta JV in August 2016 (see Note 3), the Company believes it has satisfied this obligation.

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 15. SUBSEQUENT EVENTS

Dispositions

The Company sold the 60-room Comfort Inn in Glasgow, Kentucky on October 14, 2016 for gross proceeds of $2,400, the 86-room Days Inn in Sioux Falls, South Dakota on November 4, 2016 for gross proceeds of $2,095, and the 76-room Comfort Inn in Shelby, North Carolina on November 7, 2016 for gross proceeds of $4,090. After repayment of the associated loans, proceeds from these sales will be used to fund future acquisitions and for general corporate purposes.

Dividends Paid

On September 15, 2016, the Board of Directors declared a common stock dividend of $0.03 per share. This dividend was paid on October 12, 2016 to shareholders of record on September 29, 2016.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2015 and our unaudited interim consolidated financial statements included in this Quarterly Report on Form 10-Q.

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

Forward-Looking Statements

Certain information both included and incorporated by reference in this Form 10-Q 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 in 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.

Background

Condor Hospitality Trust, Inc. ("CDOR," "Condor," or the "Company"), which until July 15, 2015 was formerly named Supertel Hospitality, Inc., was incorporated in Virginia on August 23, 1994 and was reincorporated in Maryland on November 19, 2014. CDOR is a self-administered real estate investment trust ("REIT") for federal income tax purposes that specializes in the investment and ownership of high quality select service, limited service, extended stay, and compact full service hotels. As of September 30, 2016, the Company owned 28 hotels, representing 2,621 rooms, in 14 states, including one hotel owned through an 80% interest in an unconsolidated joint venture ("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 ("CHLP"), for which we serve as general partner. As of September 30, 2016, we owned an approximate 97.9% ownership interest in CHLP. In the future, CHLP 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, CHLP 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. CHLP, 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 annually. The results of the hotels acquired in October 2015 and through our Atlanta JV in August 2016, as discussed below, because of their locations and chain scale, are expected to be less seasonal in nature than our legacy portfolio of assets.

Overview

The Company maintained the positive momentum of its strategic repositioning in the third quarter of 2016. The Company closed the Atlanta JV to acquire the Aloft Atlanta Downtown, announced the purchase contract to acquire the Aloft Leawood/Overland Park, closed on the disposition of seven non-core hotels in and subsequent to the quarter end, and increased its common dividend. These important accomplishments are further detailed below.

Closed Joint Venture Acquisition of the Aloft Atlanta Downtown: On August 23, 2016, the Company announced the closing of the acquisition of the 254-room Aloft Atlanta located in downtown Atlanta at 300 Spring Street NW, Atlanta, GA 30308. Condor entered into a joint venture with Three Wall Capital ("TWC") to acquire the hotel. Through CHLP and the TRS, Condor will own 80% of the Atlanta JV with TWC owning the remaining 20%. The purchase price for the hotel was $43.55 million. The hotel will be managed by Boast Hotel Management Company, LLC, an affiliate of TWC.

Announced Purchase Contract to Acquire the Aloft Leawood/Overland Park: On August 31, 2016, the Company announced that it executed an agreement to purchase the 156-room Aloft Leawood/Overland Park located within Park Place Village at 11620 Ash Street, Leawood, KS 66211. The purchase price for the hotel is $22.5 million. The hotel will be managed by Presidian Hotels and Resorts. The closing of the acquisition of the hotel is subject to customary closing conditions including accuracy of representations and warranties and compliance with covenants and obligations.

Seven Non-Core Assets Sold: In the third quarter of 2016, the Company continued to successfully dispose of legacy assets at attractive valuations. In addition to the 11 hotels sold in the first and second quarters of 2016 with gross proceeds totaling $26.0 million, the Company sold four assets in the third quarter resulting in $8.8 million of gross proceeds. Subsequent to the close of the third quarter, the Company closed on three additional assets resulting in $8.6 million of gross proceeds. Thus, year-to-date as of the time of this document, the Company has sold 18 legacy assets totaling $43.4 million in gross proceeds. The Company plans to dispose of a total of 22 legacy hotels, including the 18 closed dispositions aforementioned, in 2016 and will to utilize the net proceeds to continue to strategically reposition the portfolio.

Common Dividend Increase: On September 16, 2016, the Board of Directors declared a common stock dividend of $0.03 per share related to the third quarter, a $0.02 per share increase over the dividend announced on July 11, 2016 related to the second quarter. The third quarter dividend was paid on October 12, 2016 to shareholders of record on September 29, 2016. The third quarter dividend represents the second consecutive quarterly dividend for the Company since declaring a dividend for the first time since 2009.

In the first nine months of 2016, the U.S. lodging industry exhibited more modest growth than the same period in 2015. At a macro level, the volatile global economy, weaker corporate profit outlooks, slowing job gains, and an unpredictable U.S. political environment have dampened lodging sentiment and outlook. The modest growth in the national average Revenue per Available Room ("RevPAR") has bolstered this sentiment. However, on a positive note, the U.S. real gross domestic product has rebounded strongly since the beginning of 2016, increasing at an annual rate of 2.9% in the third quarter of 2016, the fastest rate of growth since the third quarter of 2014. Moreover, we remain optimistic on the strength of lodging fundamentals in the secondary markets we target. These markets have not experienced nearly as much supply growth as the primary markets and are less effected by alternative lodging platforms, such as Airbnb. As such, these markets have and, we believe, will continue to outperform with regards to RevPAR growth for the foreseeable future. We remain confident in our ability to continue the strategic

turnaround of the Company and remain encouraged by our many successes year-to-date. The successful closing of the Aloft Atlanta Downtown and the continued successful disposition of legacy assets at attractive valuations have resulted in a dramatic improvement in the quality of the Company's portfolio. We are determined to continue this positive momentum through the end of 2016.

The Company details factors that are outside of its control and that may negatively effect its performance in the "Risk Factors" section of its Annual Report on Form 10-K for the year ended December 31, 2015 and other documents that may be filed with the SEC in the future. We encourage our investors to become familiar with these risk factors. The Company continues to closely monitor lodging industry fundamentals, the performance of its portfolio, its third-party managers, and its general performance, in an effort to accomplish its stated mission of providing attractive total returns in the lodging sector to its investors.

Hotel Property Portfolio and Activity

Hotel Property Portfolio

The following table sets forth certain information with respect to the hotels owned by us as of September 30, 2016:

Location	Rooms	Location	Rooms
Florida		Maryland	
Key Largo, Key West Inn	40	Dowell, Hilton Garden Inn	100
Jacksonville, Courtyard by Marriott (3)	120	Solomons, Quality Inn	59
Georgia		Montana	
Atlanta, Savannah Suites (1)	164	Billings, Super 8	106
Atlanta, Hotel Indigo (3)	142		
Atlanta, Aloft (4)	254	North Carolina	
		Shelby, Comfort Inn (2) (5)	76
Indiana			
Fort Wayne, Comfort Suites	127	Pennsylvania	
Lafayette, Comfort Suites	62	New Castle, Comfort Inn (2)	79
Marion, Comfort Suites (2)	62		
South Bend, Comfort Suites	135	South Dakota	
Warsaw, Comfort Inn & Suites	71	Sioux Falls (Airport), Days Inn (1) (2) (5)	86
Iowa		Texas	
Burlington, Super 8 (2)	62	San Antonio, SpringHill Suites (3)	116
Creston, Super 8	121		
Creston, Supertel Inn	41	Virginia	
		Farmville, Comfort Inn (2)	50
Kentucky		Farmville, Days Inn (2)	59
Glasgow, Comfort Inn (2) (5)	60	Rocky Mount, Comfort Inn (2)	61
Harlan, Comfort Inn (1)	61		
		West Virginia	
Louisiana		Morgantown, Quality Inn	81
Bossier City, Days Inn (2)	176	Princeton, Quality Inn (2)	50
		Total Rooms	2,621

(1) This property is subject to a long-term ground lease
(2) This property is considered held for sale at September 30, 2016
(3) This property was newly acquired in October 2015
(4) This property is owned through an 80% interest in our unconsolidated Atlanta JV acquired in August 2016
(5) This property was sold subsequent to September 30, 2016

All of our properties are encumbered by either our revolving credit agreement or by mortgage debt at September 30, 2016.

Acquisitions

On August 1, 2016, the Company entered into a joint venture with TWC to acquire a 254-room Aloft hotel in downtown Atlanta, Georgia. The Company accounts for the Atlanta JV under the equity method. Condor 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 CHLP 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 $43.55 million, 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 (in thousands). The process for valuing and recording the assets and liabilities obtained in this transaction is not yet complete. As such, these values are currently preliminary and subject to adjustment throughout the completion of the measurement period, which will be completed within one year of closing the transaction.

Land	Buildings, improvements, and vehicle	Furniture and equipment	Land option (1)	Total purchase price	Debt originated at acquisition	Net cash
$ 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 $9.8 million in cash, of which $7.84 million was contributed by Condor and $1.96 million was contributed by TWC, and $33.75 million of proceeds from a term loan secured by the property. Condor additionally contributed $1.44 million and TWC additionally contributed $0.36 million 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 certain conditions and fees. The interest rate is a floating rate calculated on the one-month LIBOR plus 5.0%, and as a condition to closing, the Atlanta JV purchased a LIBOR cap of 3.0%. The current interest rate on the loan is 5.31%. 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.

Net cash flow and profits from the Atlanta JV will be 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. Losses are allocated based on pro-rata equity ownership. 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.

Dispositions

Consistent with our strategic repositioning, the following hotel sales were executed in the nine months ended September 30, 2016:

Date of sale	Location	Brand	Condor lender	Number of rooms	Gross proceeds (in thousands)
01/04/16	Kirksville, MO	Super 8	Great Western	61	$ 1,525
01/07/16	Lincoln, NE	Super 8	Great Western	133	2,800
01/08/16	Greenville, SC	Savannah Suites	Western Alliance Bank	170	2,700
03/30/16	Portage, WI	Super 8	Morgan Stanley	61	2,375
04/22/16	O'Neill, NE	Super 8	Morgan Stanley	72	1,725
05/10/16	Culpeper, VA	Quality Inn	Morgan Stanley	49	2,200
05/19/16	Storm Lake, IA	Super 8	Morgan Stanley	59	2,800
05/24/16	Cleveland, TN	Clarion	Morgan Stanley	59	2,231
05/26/16	Iowa City, IA	Super 8	Morgan Stanley	84	3,375
05/27/16	Keokuk, IA	Super 8	Morgan Stanley	61	2,153
06/06/16	Chambersburg, PA	Comfort Inn	Morgan Stanley	63	2,150
08/08/16	Pittsburg, KS	Super 8	Morgan Stanley	64	1,620
09/09/16	Mt. Pleasant, IA	Super 8	Morgan Stanley	54	1,850
09/19/16	Danville, KY	Quality Inn	Morgan Stanley	63	2,288
09/26/16	Menomonie, WI	Super 8	Morgan Stanley	81	3,000
			Total	1,134	$ 34,792

Net proceeds from these hotel dispositions, after expenses and debt repayment, totaled $2.8 million and $11.2 million in the three and nine months ended September 30, 2016, respectively. In the three months ended September 30, 2015, four hotels with 498 rooms were sold for gross proceeds of $23.9 million, and net proceeds, after expenses and debt repayment, of $11.7 million. In the nine months ended September 30, 2015, 11 hotels with 1,135 rooms were sold for gross proceeds of $40.8 million, and net proceeds, after expenses and debt repayment, of $16.0 million.

Based on the criteria discussed in the footnotes to the consolidated financial statements, as of September 30, 2016, the Company had 11 hotels classified as held for sale. At June 30, 2016, the Company had 17 hotels held for sale and during the three months ended September 30, 2016 sold four properties, classified two additional hotels as held for sale, and reclassified four properties into held for use. At December 31, 2015, the Company had 16 hotels held for sale and during the nine months ended September 30, 2016 sold 15 properties, classified 12 additional hotels as held for sale, and reclassified two properties into held for use.

As discussed in the footnotes to the consolidated financial statements, as of October 1, 2014 the Company adopted ASU 2014-08 which changes the criteria for reporting a discontinued operation such that only disposals representing a strategic shift in operations should be presented as discontinued operations subsequent to adoption. 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), none of which remain unsold at September 30, 2016, are included in discontinued operations with all other hotels, including those subsequently sold or classified as held for sale, reported in continuing operations. For the three months ended September 30, 2016 and 2015, the results of 31 and 47 hotels, respectively, were included in continuing operations and the results of no and two hotels, respectively, were included in discontinued operations. For the nine months ended September 30, 2016 and 2015, the results of 41 and 47 hotels, respectively, were included in continuing operations and the results of one and nine hotels, respectively, were included in discontinued operations.

Operating Performance Metrics

The following table presents our occupancy, Average Daily Rate ("ADR"), and RevPAR for our same store operations. The comparisons for same store operations include all of our hotels owned as of September 30, 2016 with the exception of the three hotels we acquired in October 2015 and one hotel acquired through our Atlanta JV in August 2016 (24 hotels included in same store results, 13 of which are considered held for use ("HFU") and 11 of which are considered held for sale ("HFS"). All hotels included in same store operations were owned throughout each of the periods presented. The performance metrics for the three hotels acquired in October 2015 are separately presented below and represent post-acquisition operations only. The performance metrics for the hotel acquired through our Atlanta JV on August 22, 2016, also presented separately below, reflect post-acquisition operations only and 100% of the operating results of the property including our interest and the interest of our partner.

	Three months ended September 30,					
	2016			2015		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Same store HFU	70.43%	$ 77.99	$ 54.93	72.99%	$ 79.93	$ 58.34
Same store HFS	65.98%	$ 69.04	$ 45.55	67.13%	$ 67.18	$ 45.10
Total same store	68.60%	$ 74.44	$ 51.06	70.57%	$ 74.92	$ 52.87
October 2015 Acquisitions	69.02%	$ 114.14	$ 78.78	-	$ -	$ -
Aloft Atlanta JV	78.52%	$ 146.02	$ 114.66	-	$ -	$ -

	Nine months ended September 30,					
	2016			2015		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Same store HFU	64.47%	$ 76.98	$ 49.63	68.79%	$ 74.67	$ 51.37
Same store HFS	61.61%	$ 64.96	$ 40.02	66.34%	$ 64.14	$ 42.55
Total same store	63.29%	$ 72.16	$ 45.68	67.78%	$ 70.42	$ 47.73
October 2015 Acquisitions	73.51%	$ 114.19	$ 83.95	-	$ -	$ -
Aloft Atlanta JV	78.52%	$ 146.02	$ 114.66	-	$ -	$ -

In the same store HFU portfolio of hotels, RevPAR decreased 5.8% from the third quarter of 2015 to the third quarter of 2016, driven by both a decrease in occupancy of 3.5% and a decrease in ADR of 2.4%. In this same portfolio, RevPar decreased 3.4% between the year to date periods ended September 30, 2016 and 2015, also driven by a decrease in occupancy of 6.3% which was partially offset by an increase in ADR of 3.1%. These decreases in occupancy were driven by market challenges facing these hotels as a result of declines in the oil and gas, rail, and fracking industries. This decrease in occupancy is most pronounced in the year to date results as the summer travel season, with its increased leisure, transient, and construction travel, favorably impacts our hotels in the second and third quarters annually. Despite these occupancy challenges, in the latter half of 2015 and in 2016, the Company has focused on increasing ADR as is evident in the year to date ADR increase. Quarter to date ADR decreased largely as a result of renovations in certain of our Indiana properties and poor market conditions for rate at certain of our properties that are more dependent on summer leisure travel.

Results of Operations

Comparison of the three months ended September 30, 2016 to the three months ended September 30, 2015 (in thousands)

	Three months ended September 30,						
	2016			2015			
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations variance
Revenue	$ 13,519	$ -	$ 13,519	$ 15,895	$ 526	$ 16,421	$ (2,376)
Hotel and property operations expense	(9,452)	-	(9,452)	(11,076)	(341)	(11,417)	1,624
Depreciation and amortization expense	(1,398)	-	(1,398)	(1,099)	-	(1,099)	(299)
General and administrative expense	(1,367)	-	(1,367)	(1,451)	-	(1,451)	84
Acquisition and terminated transactions expense	(228)	-	(228)	(177)	-	(177)	(51)
Terminated equity transactions	-	-	-	(180)	-	(180)	180
Net gain (loss) on disposition of assets	3,591	-	3,591	2,927	(1)	2,926	664
Equity in loss of joint venture	(54)	-	(54)	-	-	-	(54)
Net gain on derivatives and convertible debt	26	-	26	7,895	-	7,895	(7,869)
Other income (expense)	85	-	85	(4)	-	(4)	89
Interest expense	(1,127)	-	(1,127)	(1,137)	(32)	(1,169)	10
Loss on extinguishment of debt	(399)	-	(399)	(104)	-	(104)	(295)
Impairment (loss) recovery	(343)	-	(343)	313	-	313	(656)
Income tax expense	-	-	-	-	-	-	-
Net earnings	$ 2,853	$ -	$ 2,853	$ 11,802	$ 152	$ 11,954	$ (8,949)

Revenue

Revenue from continuing operations between the periods decreased by $2,376, or 14.9%. Revenue from newly acquired properties in the three months ended September 30, 2016 totaled $3,015 while revenue decreased by $5,047 as a result of decreased revenue from held for sale and sold properties included in continuing operations. Revenue related to held for use properties decreased by $344 as a result of the decreased RevPAR on these properties discussed above.

Expenses

Hotel and property operations expense from continuing operations decreased by $1,624, which was driven by decreased expenses from held for sale or sold properties included in continuing operations of $3,570, partially offset by expenses from newly acquired properties of $2,007 in the three months ended September 30, 2016. In totality, hotel and operations expenses from continuing operations remained a relatively consistent percentage of total revenue at 69.9% and 69.7% for the three months ended September 20, 2016 and 2015, respectively, with the higher margins we are earning on our 2015 acquisitions being offset by lower margins earned on our legacy hotels due largely to wage increases resulting from current labor market conditions that took effect in the latter half of 2015 as well as increased labor costs incurred at the Indiana properties under renovation.

Interest expense from continuing operations remained stable between the periods, decreasing by $10, as the result of the offsetting effects of a decrease in the size of the Company's hotel portfolio which was encumbered by debt and a decrease in the weighted average interest rate on outstanding debt from 5.85% at September 30, 2015 to 5.38% at September 30, 2016 as a result of debt repaid upon the sale of properties and debt refinancings between the periods.

Depreciation expense from continuing operations increased by $299 between the periods as a result of depreciation on our newly acquired properties and additional depreciation taken on upon the reclassified from HFS to HFU of four properties during the third quarter of 2016 a partially offset by decreases in depreciation resulting from sold and held for sale properties.

The $84 decrease in general and administrative expense was driven by decreases in the Company's directors' and officers' insurance premiums and decreased executive recruiting costs between the periods.

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 in 2016 of $51 was a result of increased activity by management to review potential future transactions. These expenses in 2015 were incurred in preparation for the three acquisitions that closed in early October 2015.

The terminated equity expenses incurred in 2015 related to the preparation of an exchange offer that was later withdrawn.

Dispositions

In the three months ended September 30, 2016, four hotels were sold with gains totaling $3,632. In the three months ended September 30, 2015, two hotels were sold with gains totaling $2,966 and two hotels were sold that had been previously impaired and as such had no gains.

Net Gain on Derivatives and Convertible Debt

In the three months ended September 30, 2016, the Company recognized a minimal net gain on derivatives and convertible debt of $26. In the three months ended September 30, 2015, the gain totaling $7,895 was driven by a decrease in the fair value of derivatives that was primarily a result of a decrease in the Company's stock price, which in turn decreased the value assigned to the conversion feature of the Series C Preferred Stock and the outstanding common stock warrants.

Loss on Extinguishment of Debt

The loss on the extinguishment of debt increased between the periods as a result of significant prepayment penalties incurred in 2016 upon the disposal of a properties encumbered by the Company's Morgan Stanley debt.

Impairment (Loss) Recovery

In the three months ended September 30, 2016, we incurred $343 of impairment losses, all of which was included in continuing operations. In the three months ended September 30, 2015, we recognized impairment recoveries totaling $313, all of which was included in continuing operations. All impairments recognized in both periods related either to hotels HFS, reclassified from HFS to HFU, or sold at some point during the periods.

Income Tax Expense

As of September 30, 2016 and 2015 and throughout the three months then ended, 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 in the three months ended September 30, 2016 or 2015. Management believes the combined federal and state income tax rate for the TRS will be approximately 38% and income tax benefit or expense will vary based on the taxable earnings or loss of the TRS.

Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015 (in thousands)

	Nine months ended September 30,						
	2016			2015			
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations variance
Revenue	$ 40,177	$ 6	$ 40,183	$ 45,320	$ 2,526	$ 47,846	$ (5,143)
Hotel and property operations expense	(29,052)	(4)	(29,056)	(32,971)	(1,679)	(34,650)	3,919
Depreciation and amortization expense	(4,096)	-	(4,096)	(3,836)	-	(3,836)	(260)
General and administrative expense	(4,092)	-	(4,092)	(4,183)	-	(4,183)	91
Acquisition and terminated transactions expense	(375)	-	(375)	(194)	-	(194)	(181)
Terminated equity transactions	-	-	-	(180)	-	(180)	180
Net gain on disposition of assets	15,814	681	16,495	2,801	1,665	4,466	13,013
Equity in loss of joint venture	(54)	-	(54)	-	-	-	(54)
Net gain on derivatives and convertible debt	6,305	-	6,305	8,008	-	8,008	(1,703)
Other income	87	-	87	122	-	122	(35)
Interest expense	(3,704)	(5)	(3,709)	(4,194)	(192)	(4,386)	490
Loss on extinguishment of debt	(1,548)	-	(1,548)	(111)	-	(111)	(1,437)
Impairment (loss) recovery	(1,257)	-	(1,257)	(3,517)	120	(3,397)	2,260
Income tax expense	-	-	-	-	-	-	-
Net earnings	$ 18,205	$ 678	$ 18,883	$ 7,065	$ 2,440	$ 9,505	$ 11,140

Revenue

Revenue from continuing operations decreased by $5,143, or 11.3%, between the periods. Revenue from newly acquired properties in the nine months ended September 30, 2016 totaled $9,529 while revenue from our other held for use assets decreased by $478 which was the result of the decrease in same store RevPAR for held for use hotels discussed above. Revenue from held for sale and sold properties included in continuing operations decreased by $14,194, driven by property sales during and between the periods presented.

Expenses

Hotel and property operations expense from continuing operations decreased by $3,919, which was driven by decreased expenses from held for sale or sold properties included in continuing operations of $10,117 which were partially offset by expenses from newly acquired properties of $6,090 in the nine months ended September 30, 2016. In totality, hotel and operations expenses from continuing operations decreased as a percentage of revenue by 0.5% because the legacy hotels that remain in our portfolio and our 2015 acquisitions have higher operating margins than the hotels that were sold during and between the periods.

Interest expense from continuing operations decreased by $490 between the periods as a result of a net decrease in the size of the Company's hotel portfolio which was encumbered by debt. Additionally, interest expense was favorably impacted by a decrease in the weighted average interest rate on total long-term debt outstanding from 5.85% at September 30, 2015 to 5.38% at September 30, 2016 as a result of debt repaid upon the sale of properties and debt refinancings between the periods.

Depreciation expense from continuing operations increased by $260 between the periods as a result of depreciation on our newly acquired properties and additional depreciation taken on upon reclassified from HFS to HFU of four properties during the third quarter of 2016 partially offset by decreases in depreciation resulting from sold and held for sale properties.

The $91 decrease in general and administrative expense was driven by decreases in the Company's directors' and officers' insurance premiums and decreased executive recruiting costs between the periods.

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 expenses incurred pursuing potential acquisitions. These expenses in 2016 were a result of expenses incurred during the period related to the final accounting for and valuation of the three acquisitions completed in the fourth quarter of 2015 as well as increased activity by management to review potential future transactions. These expenses in 2015 were incurred in preparation for the three acquisitions that closed in early October 2015.

The terminated equity expenses incurred in 2015 related to the preparation of an exchange offer that was later withdrawn.

Dispositions

In the nine months ended September 30, 2016, 15 hotels were sold with gains totaling $16,577. In the nine months ended September 30, 2015, four hotels were sold with gains totaling $4,633 and seven hotels were sold that had been previously impaired and as such had no gains.

Net Gain on Derivatives and Convertible Debt

The change in the net gain on derivatives and convertible debt was driven by changes in the fair value of the derivative liabilities between the periods. In both periods, decreases in fair value of derivatives were primarily a result of a decreases in the Company's stock price, which in turn decreased the value assigned to the conversion feature of the Series C Preferred Stock and the outstanding common stock warrants. In the nine months ended September 30, 2016, this gain was partially offset by a loss of $224 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 to September 30, 2016.

Loss on Extinguishment of Debt

The loss on the extinguishment of debt increased between the periods as a result of significant prepayment penalties incurred upon the disposal of properties encumbered by the Company's Morgan Stanley debt.

Impairment (Loss) Recovery

In the nine months ended September 30, 2016, we incurred $1,257 of impairment losses, all of which was included in continuing operations. In the nine months ended September 30, 2015, we incurred impairment losses totaling $3,397, of which $3,517 was in continuing operations and a recovery of $120 was in discontinued operations. All impairments and recoveries recognized in both periods related either to hotels HFS, reclassified from HFS to HFU, or sold at some point during the periods.

Income Tax Expense

As of September 30, 2016 and 2015 and throughout the nine months then ended, 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 in the nine months ended September 30, 2016 or 2015. Management believes the combined federal and state income tax rate for the TRS will be approximately 38% and income tax benefit or expense will vary based on the taxable earnings or loss of the TRS.

Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical financial performance that are different from measures calculated and presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We report Funds from Operations ("FFO"), Adjusted FFO ("AFFO"), Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"), Adjusted EBITDA, and 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.

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

We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which defines FFO as net earnings computed in accordance with GAAP, excluding gains or losses from sales of real estate assets, impairment, and the depreciation and amortization of real estate assets. FFO is calculated both for the Company in total and as FFO attributable to common shares and partnership units, which is FFO excluding preferred stock dividends. AFFO is FFO attributable to common shares and partnership units adjusted to exclude items we do not believe are representative of the results from our core operations, such as non-cash gains or losses on derivative liabilities and convertible debt and cash charges for acquisition 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 and AFFO to be useful additional measures of performance for an equity REIT because they facilitate an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that FFO and AFFO provide a meaningful indication of our performance.

The following table reconciles net earnings to FFO and AFFO for the three and nine months ended September 30, 2016 and 2015 (in thousands). All amounts presented include both continuing and discontinued operations as well as our portion of the results of our unconsolidated Atlanta JV.

	Three months ended September 30,		Nine months ended September 30,	
Reconciliation of Net earnings to FFO and AFFO	**2016**	**2015**	**2016**	**2015**
Net earnings	$ 2,853	$ 11,954	$ 18,883	$ 9,505
Depreciation and amortization expense	1,398	1,099	4,096	3,836
Depreciation and amortization expense from JV	94	-	94	-
Net gain on disposition of assets	(3,591)	(2,926)	(16,495)	(4,466)
Net loss on disposition of assets from JV	1	-	1	-
Impairment loss (recovery)	343	(313)	1,257	3,397
FFO	1,098	9,814	7,836	12,272
Dividends declared and undeclared and in kind dividends deemed on preferred stock	(976)	(914)	(19,773)	(2,707)
FFO attributable to common shares and partnership units	122	8,900	(11,937)	9,565
Net gain on derivatives and convertible debt	(26)	(7,895)	(6,305)	(8,008)
Acquisition and terminated transactions expense	228	177	375	194
Acquisition and terminated transactions expense from JV	224	-	224	-
Terminated equity transactions	-	180	-	180
AFFO attributable to common shares and partnership units	$ 548	$ 1,362	$ (17,643)	$ 1,931

Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"), Adjusted EBITDA, and Hotel EBITDA

We calculate EBITDA and Adjusted EBITDA by adding back to net earnings 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 interest expense, loss on debt extinguishment, income tax expense, and depreciation and amortization expense. In calculating Adjusted EBITDA, we adjust EBITDA to add back net gain/loss on disposition of assets and acquisition and terminated transactions expense, which are cash charges. We also add back impairment and gain or loss on derivatives and convertible debt, which are non-cash charges. Our current calculation of EBITDA varies from that presented in filings prior to the December 31, 2015 Form 10-K as EBITDA was historically calculated based on net earnings attributable to common shareholders with preferred dividends and noncontrolling interest added back only to Adjusted EBITDA. EBITDA and Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of other companies.

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

The 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 EBITDA to calculate Hotel EBITDA. Hotel EBITDA is similar to the non-GAAP measure of Property Operating Income ("POI") presented in filings prior to the September 30, 2016 Form 10-Q except that Hotel EBITDA also excludes the unallocated hotel and property operations expenses previously included in POI. 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, Adjusted EBITDA, and Hotel EBITDA for the three and nine months ended September 30, 2016 and 2015 (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	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net earnings	$ 2,853	$ 11,954	$ 18,883	$ 9,505
Interest expense	1,127	1,169	3,709	4,386
Interest expense from JV	191	-	191	-
Loss on debt extinguishment	399	104	1,548	111
Income tax expense	-	-	-	-
Depreciation and amortization expense	1,398	1,099	4,096	3,836
Depreciation and amortization expense from JV	94	-	94	-
EBITDA	6,062	14,326	28,521	17,838
Net gain on disposition of assets	(3,591)	(2,926)	(16,495)	(4,466)
Net loss on disposition of assets from JV	1	-	1	-
Impairment loss (recovery)	343	(313)	1,257	3,397
Net gain on derivatives and convertible debt	(26)	(7,895)	(6,305)	(8,008)
Acquisition and terminated transactions expense	228	177	375	194
Acquisition and terminated transactions expense from JV	224	-	224	-
Terminated equity transactions	-	180	-	180
Adjusted EBITDA	3,241	3,549	7,578	9,135
General and administrative expense	1,367	1,451	4,092	4,183
Other income (expense)	(85)	4	(87)	(122)
Unallocated hotel and property operations expense	113	199	391	376
Hotel EBITDA	$ 4,636	$ 5,203	$ 11,974	$ 13,572

Liquidity, Capital Resources, and Equity Transactions

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 revolving credit agreement with Great Western Bank, and the release of restricted cash upon the satisfaction of usage requirements. At September 30, 2016, the Company had $11.4 million of cash and cash equivalents on hand and $1.6 million of unused availability under its revolving credit agreement. 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 Internal Revenue Code and as required in connection with our Series D Preferred Stock. We presently expect to invest approximately $4.5 million to $6.0 million in capital expenditures related to hotel properties we currently own through December 31, 2017.

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 and proceeds from public or private issuances of debt or equity securities.

Prior to the consideration of any asset sales or our ability to refinance debt subsequent to September 30, 2016, contractual principal payments on our debt outstanding, including normal amortization, total $26.9 million through December 31, 2017, including the February 1, 2017 maturity of one of our Western Alliance Bank ("WAB") loans with a balance at September 30, 2016 of $10.4 million, the November 6, 2017 maturity of our Cantor loan with a balance at September 30, 2016 of $5.7 million, and the December 1, 2017 maturity of our Morgan Stanley loan with a balance at September 30, 2016 of $9.6 million. Prior to these maturities, the Company anticipates refinancing these loans with the the existing lenders or another lender. As a result of our improved financial condition and the terms of the lending arrangements we have entered into in recent periods, we believe we will be able to refinance this debt on similar or perhaps more favorable terms, even if interest rates increase as a result of future Federal Reserve actions. However, notwithstanding our perception, we may not be successful in our efforts to refinance or repay our maturing debt.

Additionally, at September 30, 2016, we have 11 hotels held for sale which, if sold, we believe will generate approximately $14.9 million in net proceeds after debt repayment. Since December 1, 2008, we have sold 102 hotels. Although it is management's plan to use net proceeds after debt repayment from future asset sales to fund future acquisitions, if necessary the Company believes that cash generated from asset dispositions will be sufficient to fund any shortfalls associated with future debt maturities. However, with respect to future hotel sales, we cannot predict whether we will be able to find buyers for identified assets at prices and other terms acceptable to us, whether potential buyers will be able to secure financings, and the length of time needed to find a buyer and to close the sale of a property.

Sources and Uses of Cash

Cash provided by Operating Activities. Our cash provided by operations was $4.1 million and $6.1 million for the nine months ended September 30, 2016 and 2015, respectively. The decrease in operating cash flows was driven by a decrease in cash basis net income of $1.5 million as well as differences in the changes in operating assets and liabilities between the periods, none of which were individually significant.

Cash provided by Investing Activities. Our cash provided by investing activities was $21.7 million and $36.3 million for the nine months ended September 30, 2016 and 2015, respectively. The decrease in these cash flows in 2016 was primarily the result of decreased net proceeds from the sale of properties of $6.5 million and the 2016 investment in joint venture of $9.3 million, partially offset with a net increase in cash received from capital expenditure escrows of $0.9 million.

Cash used in Financing Activities. Our cash used in financing activities was $19.4 million and $27.7 million for the nine months ended September 30, 2016 and 2015, respectively. This increase in cash flows was primarily related to cash received in the first quarter of 2016 related to the Series D Preferred Stock issuance less cash used to redeem the Series A and B Preferred Stock and cash dividends paid on the Series C and Series D Preferred Stock, which together had a net impact to financing cash flows of $5.1 million, as well as decreased net principal payments on long-term and revolving debt of $4.4 million as a result of decreased net revolver activity as well as decreased debt repayments required upon the sale of hotel properties. These increases were partially offset with prepayment penalties of $1.3 million paid in 2016 upon the sale of properties encumbered by the Company's Morgan Stanley loan.

Significant Equity Transactions

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

- the issuance and sale of Condor'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 Condor's outstanding Series C Preferred Stock for Series D Preferred Stock; and
- the cash redemption of all of Condor's outstanding Series A Cumulative Preferred Stock and 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 Condor 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 $30.0 million. The Stock Purchase Agreement required that $20.147 million 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 Condor.

Simultaneously, the Company entered into an agreement (the "Exchange Agreement") with Real Estate Strategies, L.P. ("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 million on the Series C Preferred Stock, Condor (a) paid to RES an amount of cash equal to $1.484 million, (b) issued to RES 245,156 shares of Series D Preferred Stock (such that RES, IRSA and their affiliates do not beneficially own in excess of 49% of the voting stock of Condor) and (c) issued to RES a convertible promissory note, bearing interest at 6.25% per annum, in the principal amount of $1.012 million.

Pursuant to the Stock Purchase Agreement, on April 15, 2016, Condor 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 million; and
- 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 million.

The terms of the convertible promissory note and the Series D Preferred Stock are discussed in depth in Note 6, *Convertible Debt at Fair Value*, and Note 9, *Preferred Stock*, to our consolidated interim financial statements.

Outstanding Indebtedness

During the three and nine months ended September 30, 2016, net proceeds from the Company's four and 15 hotel sales, respectively, were used to pay off the associated loans totaling $5.3 million and $21.2 million, respectively, to reduce the balance of the revolving credit facility with Great Western Bank, and set aside to fund future acquisitions. These dispositions, as well as adjustments required to remain in compliance with the required debt service ratio, decreased the total availability under the Great Western Bank revolver from $5.7 million at December 31, 2015 to $1.6 million at September 30, 2016.

At September 30, 2016, we had long-term debt of $53.4 million associated with assets held for use with a weighted average term to maturity of 2.3 years and a weighted average interest rate of 5.21%. Of this total, at September 30, 2016, $19.8 million was fixed rate debt with a weighted average term to maturity of 0.7 years and a weighted average interest rate of 6.07% and $33.6 million was variable rate debt with a weighted average term to maturity of 3.3 years and a weighted average interest rate of 4.70%. At December 31, 2015, we had long-term debt of $56.8 million associated with assets held for use with a weighted average term to maturity of 3.0 years and a weighted average interest rate of 5.21%. Of this total, at December 31, 2015, $21.7 million was fixed rate debt with a weighted average term to maturity of 1.5 years and a weighted average interest rate of 6.04% and $35.1 million was variable rate debt with a weighted average term to maturity of 4.0 years and a weighted average interest rate of 4.70%.

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 remainder of 2016 and thereafter are as follows:

	Held for sale	Held for use	Total
Remainder of 2016	$ 213	$ 416	$ 629
2017	6,215	20,095	26,310
2018	2,519	11,595	14,114
2019	60	547	607
2020	2,023	20,720	22,743
Total	$ 11,030	$ 53,373	$ 64,403

Financial Covenants

The Company's debt agreements contain requirements as to the maintenance of minimum levels of debt service and fixed charge coverage and required loan-to-value and leverage ratios, and place certain restrictions on dividends. As of September 30, 2016, we were in compliance with our financial covenants.

If we fail to pay our indebtedness when due, fail to comply with covenants or otherwise default on our loans, unless waived, we could incur higher interest rates during the period of such loan defaults, be required to immediately pay our indebtedness, and ultimately lose our hotels through lender foreclosure if we are unable to obtain alternative sources of financing with acceptable terms. Our Great Western Bank and certain of our WAB facilities contain cross-default provisions which would allow Great Western Bank and WAB to declare a default and accelerate our indebtedness to them if we default on our other loans and such default would permit that lender to accelerate our indebtedness under any such loan. As of September 30, 2016, we are not in default of any of our loans.

Contractual Obligations

Below is a summary of certain obligations that will require capital as of September 30, 2016 (in thousands):

		Payments due by period			
Contractual obligations	**Total**	**Remainder of 2016**	**2017-2018**	**2019-2020**	**After 2020**
Long-term debt including interest (1)	$ 58,786	$ 1,125	$ 34,928	$ 22,733	$ -
Land and office leases (2)	3,056	58	290	204	2,504
Total contractual obligations	$ 61,842	$ 1,183	$ 35,218	$ 22,937	$ 2,504

(1) Interest rate payments on our variable rate debt have been estimated using interest rates in effect at September 30, 2016
(2) Primarily ground leases and corporate office leases

Long-term debt and land lease payments above include only amounts related to properties classified as held for use. Future debt payments, including interest, related to the 11 held for sale properties that are expected to be sold within the next 12 months of $11.9 million and future obligations on the one land lease related to a held for sale property totaling $2.0 million are not included in the table above.

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

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. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 with the exception of the policy below which is considered critical following the formation of our unconsolidated Atlanta JV during the three months ended September 30, 2016.

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 profits and losses of our Atlanta JV may be allocated disproportionately to nominal ownership percentages due to specified preferred return rate thresholds.

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.

Recent Accounting Standards

See Note 1, *Organization and Summary of Significant Accounting Policies*, to our consolidated interim financial statements for additional information relating to recently adopted and recently issued accounting pronouncements.

ITEM 3. 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 September 30, 2016, our market risk arises primarily from interest rate risk relating to variable rate borrowings and the market risk related to our convertible debt that fair value will fluctuate following changes in the Company's common stock price or changes in interest rates.

Interest Rate Sensitivity

There has been no material change in our market risk exposure subsequent to December 31, 2015. At September 30, 2016, we have an interest rate swap in place which effectively locks the variable interest rate on our Huntington Bank debt (September 30, 2016 balance of $9.8 million) at 4.13% and an interest rate cap in place which caps the 30-day LIBOR interest rate on our Latitude debt (September 30, 2016 balance of $11.2 million) at 1%. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

At September 30, 2016, approximately 51.3% 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 48.7% of our debt is subject to floating rates. Assuming no increase in the level of our variable debt outstanding at September 30, 2016 and after giving effect to our interest rate swap, if interest rates increased by 1.0% our cash flow related to hotel properties held for use would decrease by approximately $0.3 million per year.

ITEM 4. 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 September 30, 2016, 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 for 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.

Changes in Internal Control Over Financial Reporting

There have been no changes to our internal control over financial reporting during our most recent fiscal quarter that have materially effected, or are reasonably likely to materially effect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. 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 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the *Risk Factors* section of our Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1*	Third Amended and Restated Agreement of Limited Partnership of Condor Hospitality Limited Partnership (f/k/a Supertel Limited Partnership), as amended.
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 effective 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	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).
10.5	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).
10.6	Guaranty of Recourse Obligations by Condor Hospitality Trust, Inc. 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).
10.7	Agreement of Purchase and Sale by and between Leawood ADP, Ltd, and Condor Hospitality Limited Partnership dated August 29, 2016 (incorporated herein by reference to Exhibit 10. to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated August 29, 2016).
10.8	Amended and Restated Employment Agreement dated March 2, 2015, by and between Condor Hospitality Trust, Inc. and J. William Blackham, as amended and restated September 16, 2016 (incorporated herein by reference to Exhibit 10. to the Company's Current Report on Form 8-K (Commission file number 001-34087) dated September 16, 2016).
31.1*	Section 302 Certificate of Chief Executive Officer
31.2*	Section 302 Certificate of Chief Financial Officer
32.1*	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer
101.1*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.

***** Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Condor Hospitality Trust, Inc.

November 8, 2016

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

/s/ Jonathan Gantt
Jonathan Gantt
Senior Vice President and Chief Financial Officer

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

THIRD AMENDMENT
TO
THIRD AMENDED AND RESTATED AGREEMENT
OF LIMITED PARTNERSHIP
OF
SUPERTEL LIMITED PARTNERSHIP

The undersigned hereby certifies that the Third Amended and Restated Agreement of Limited Partnership of Supertel Limited Partnership, dated as of June 30, 2000 (as amended, the "Partnership Agreement"), is hereby further amended, effective September 15, 2016, by written consent of the General Partner, so that the first sentence of Section 2.02 of the Partnership Agreement is revised in its entirety to read as follows:

"The name of the Partnership shall be Condor Hospitality Limited Partnership."

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has set her hand effective this 15th day of September, 2016.

GENERAL PARTNER:

SUPERTEL HOSPITALITY REIT TRUST

By: _/s/ Lauren E. Green_____
Name: Lauren E. Green
Title: Vice President

SECOND AMENDMENT
TO
THIRD AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP
OF
SUPERTEL LIMITED PARTNERSHIP
MARCH 2, 2015

THIS SECOND AMENDMENT TO AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP (this "Second Amendment"), dated as of March 2, 2015, is entered into by SUPERTEL HOSPITALITY REIT TRUST, a Maryland real estate investment trust, as general partner (the "General Partner") of SUPERTEL LIMITED PARTNERSHIP, a Virginia limited partnership (the "Partnership"), for itself and on behalf of the limited partners of the Partnership.

WHEREAS, the Third Amended and Restated Agreement of Limited Partnership of the Partnership was executed on June 30, 2000, and an Amendment No. 1 thereto was executed on May 26, 2005 (the "Agreement"); and

WHEREAS, Section 4.02(a) of the Partnership Agreement authorizes the General Partner to cause the Partnership to issue additional Partnership Units in one or more classes or series, with such designations, preferences and relative, participating, optional or other special rights, powers and duties as shall be determined by the General Partner, without the approval of the Limited Partners; and

WHEREAS, pursuant to the authority granted to the General Partner pursuant to Sections 4.02(a) and Article XI of the Partnership Agreement, the General Partner desires to amend the Partnership Agreement to establish a new series of Partnership Units, the LTIP Units, and to set forth the designations, rights, powers, preferences and duties of such LTIP Units.

NOW, THEREFORE, in consideration of good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the General Partner hereby amends the Partnership Agreement as follows:

1. Defined Terms.

(a) The following defined terms shall be added to Article I of the Agreement:

"Adjustment Events" has the meaning set forth in Section 4.10(a)(i) hereof.

"Capital Account Limitation" has the meaning set forth in Section 4.11(b) hereof.

"Common Partnership Unit Distribution" has the meaning set forth in Section 4.10(a)(ii) hereof.

"Common Unit Economic Balance" has the meaning set forth in Section 5.01(h) hereof.

"Common Unit Transaction" has the meaning set forth in Section 4.11(f) hereof.

"Constituent Person" has the meaning set forth in Section 4.11(f) hereof.

"Conversion Date" has the meaning set forth in Section 4.11(b) hereof.

"Conversion Notice" has the meaning set forth in Section 4.11(b) hereof.

"Conversion Right" has the meaning set forth in Section 4.11(a) hereof.

"Economic Capital Account Balances" has the meaning set forth in Section 5.01(h) hereof.

"Equity Incentive Plan" means any equity incentive or compensation plan in effect on the date hereof or hereafter adopted by the Partnership or HHTI.

"Forced Conversion" has the meaning set forth in Section 4.11(c) hereof.

"Forced Conversion Notice" has the meaning set forth in Section 4.11(c) hereof.

"Liquidating Gains" has the meaning set forth in Section 5.01(h) hereof.

"LTIP Unit" means a Partnership Unit which is designated as an LTIP Unit and which has the rights, preferences and other privileges designated in Section 4.10 hereof and elsewhere in this Agreement in respect of holders of LTIP Units, including both Vested LTIP Units and Unvested LTIP Units. The allocation of LTIP Units among the Partners shall be set forth on Exhibit A hereto, as it may be amended from time to time.

"LTIP Unitholder" means a Partner that holds LTIP Units.

"Partnership Unit Designation" has the meaning set forth in Section 4.02(a)(i) hereof.

"Safe Harbor" has the meaning set forth in Section 10.05(d) hereof.

"Safe Harbor Election" has the meaning set forth in Section 10.05(d) hereof.

"Safe Harbor Interest" has the meaning set forth in Section 10.05(d) hereof.

"Unvested LTIP Units" has the meaning set forth in Section 4.10(c) hereof.

"Vested LTIP Units" has the meaning set forth in Section 4.10(c) hereof.

"Vesting Agreement" means each or any, as the context implies, agreement or instrument, other than this Agreement, entered into by a LTIP Unitholder upon acceptance of an award of LTIP Units.

(b) The definition of "Partnership Unit" shall be deleted in its entirety and replaced with the following:

"Partnership Unit" means a fractional, undivided share of the Partnership Interests of all Partners issued hereunder, and includes Common Units, LTIP Units and any other class or series of Partnership Units that may be established after the date hereof in accordance with the terms hereof. The number of Partnership Units outstanding and the Percentage Interests represented by such Partnership Units are set forth on Exhibit A hereto, as it may be amended from time to time.

(c) The definition of "Percentage Interest" shall be deleted in its entirety and replaced with the following:

"Percentage Interest" means the percentage determined by dividing the number of Common Units of a Partner by the sum of the number of Common Units of all Partners, treating LTIP Units, in accordance with Section 4.10(a), as Common Units for this purpose.

(d) The definition of "Common Unit" shall be deleted in its entirety and replaced with the following:

"Common Unit" means a Partnership Unit other than a LTIP Unit or Preferred Unit.

2. Issuances of Additional Partnership Units. Section 4.02(a)(i) of the Agreement shall be deleted in its entirety and replaced with the following:

(a) Issuances of Additional Partnership Units.

(i) General. The General Partner is hereby authorized to cause the Partnership to issue such additional Partnership Interests, in the form of Partnership Units, for any Partnership purpose at any time or from time to time to the Partners (including the General Partner) or to other Persons for such consideration and on such terms and conditions as shall be established by the General Partner in its sole and absolute discretion, all without the approval of any Limited Partners. The General Partner's determination that consideration is adequate shall be conclusive insofar as the adequacy of consideration relates to whether the Partnership Units are validly issued and fully paid. Any additional Partnership Units issued thereby may be issued in one or more classes, or one or more series of any of such classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to the then-outstanding Partnership Units held by the Limited Partners, all as shall be determined by the General Partner in its sole and absolute discretion and without the approval of any Limited Partner, subject to Virginia law that cannot be preempted by the terms hereof and, except with respect to LTIP Units,

as set forth in a written document hereafter attached to and made an exhibit to this Agreement (each, a "Partnership Unit Designation"), including, without limitation, (i) the allocations of items of Partnership income, gain, loss, deduction and credit to each such class or series of Partnership Units; (ii) the right of each such class or series of Partnership Units to share in Partnership distributions; and (iii) the rights of each such class or series of Partnership Units upon dissolution and liquidation of the Partnership; provided, that no additional Partnership Units shall be issued to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) unless:

(1) (A) the additional Partnership Units are issued in connection with an issuance of REIT Shares or other capital stock of, or other interests in, HHTI, which REIT Shares, capital stock or other interests have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the additional Partnership Units issued to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) by the Partnership in accordance with this Section 4.02 and (B) the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) shall make a Capital Contribution to the Partnership in an amount equal to the cash consideration received by HHTI from the issuance of such REIT Shares, capital stock or other interests in HHTI;

(2) the additional Partnership Units are issued in connection with an issuance of REIT Shares or other capital stock of, or other interests in, HHTI pursuant to a taxable share dividend declared by HHTI, which REIT Shares, capital stock or interests have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the additional Partnership Units issued to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) by the Partnership in accordance with this Section 4.02, provided that (A) if HHTI allows the holders of its REIT Shares to elect whether to receive such dividend in REIT Shares or other capital stock of, or other interests in HHTI or cash, the Partnership will give the Limited Partners (excluding the General Partner or any direct or indirect Subsidiary of the General Partner) the same election to elect to receive (I) Partnership Units or cash or, (II) at the election of HHTI, REIT Shares, capital stock or other interests in HHTI or cash, and (B) if the Partnership issues additional Partnership Units pursuant to this Section 4.02(a)(i)(2), then an amount of income equal to the value of the Partnership Units received will be allocated to those holders of Common Units that elect to receive additional Partnership Units;

(3) the additional Partnership Units are issued in exchange for property owned by the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) with a fair market value, as determined by the General Partner, in good faith, equal to the value of the Partnership Units; or

(4) the additional Partnership Units are issued to all Partners in proportion to their respective Percentage Interests.

3. LTIP Units. The following new Section 4.10 shall be added to the Agreement:

(a) Issuance of LTIP Units. Notwithstanding anything contained herein to the contrary, the General Partner may from time to time issue LTIP Units to Persons who provide services to or for the benefit of the Partnership for such consideration as the General Partner may determine to be appropriate, and admit such Persons as Limited Partners. Subject to the following provisions of this Section 4.10 and the special provisions of Section 4.11 and Section 5.01(h) hereof, LTIP Units shall be treated as Common Units, with all of the rights, privileges and obligations attendant thereto. For purposes of computing the Partners' Percentage Interests, holders of LTIP Units shall be treated as Common Unit holders and LTIP Units shall be treated as Common Units. In particular, the Partnership shall maintain at all times a one-to-one correspondence between LTIP Units and Common Units for conversion, distribution and other purposes, including, without limitation, complying with the following procedures:

(i) If an Adjustment Event (as defined below) occurs, then the General Partner shall make a corresponding adjustment to the LTIP Units to maintain a one-for-one conversion and economic equivalence ratio between Common Units and LTIP Units. The following shall be "Adjustment Events": (A) the Partnership makes a distribution on all outstanding Common Units in Partnership Units, (B) the Partnership subdivides the outstanding Common Units into a greater number of units or combines the outstanding Common Units into a smaller number of units, or (C) the Partnership issues any Partnership Units in exchange for its outstanding Common Units by way of a reclassification or recapitalization of its Common Units. If

more than one Adjustment Event occurs, the adjustment to the LTIP Units need be made only once using a single formula that takes into account each and every Adjustment Event as if all Adjustment Events occurred simultaneously. For the avoidance of doubt, the following shall not be Adjustment Events: (x) the issuance of Partnership Units in a financing, reorganization, acquisition or other similar business Common Unit Transaction, (y) the issuance of Partnership Units pursuant to any employee benefit or compensation plan or distribution reinvestment plan or (z) the issuance of any Partnership Units to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) in respect of a capital contribution to the Partnership of proceeds from the sale of Additional Securities by HHTI. If the Partnership takes an action affecting the Common Units other than actions specifically described above as "Adjustment Events" and in the opinion of the General Partner such action would require an adjustment to the LTIP Units to maintain the one-to-one correspondence described above, the General Partner shall have the right to make such adjustment to the LTIP Units, to the extent permitted by law and by any Equity Incentive Plan and Vesting Agreement, in such manner and at such time as the General Partner, in its sole discretion, may determine to be appropriate under the circumstances. If an adjustment is made to the LTIP Units, as herein provided, the Partnership shall promptly file in the books and records of the Partnership an officer's certificate setting forth such adjustment and a brief statement of the facts requiring such adjustment, which certificate shall be conclusive evidence of the correctness of such adjustment absent manifest error. Promptly after filing of such certificate, the Partnership shall deliver a notice to each LTIP Unitholder setting forth the adjustment to his or her LTIP Units and the effective date of such adjustment; provided, the failure to deliver such notice shall not invalidate the adjustment or the authority granted hereunder, and

(ii) The LTIP Unitholders shall, when, as and if authorized and declared by the General Partner out of assets legally available for that purpose, be entitled to receive distributions in an amount per LTIP Unit equal to the distributions per Common Unit (the "Common Partnership Unit Distribution"), paid to holders of Common Units on such Partnership Record Date established by the General Partner with respect to such distribution; provided, that distributions of assets on liquidation, dissolution or winding up shall be made solely in accordance with the Partners' positive Capital Account balances as provided in Section 5.06(a). So long as any LTIP Units are outstanding, no distributions (whether in cash or in kind) shall be authorized, declared or paid on Common Units, unless equal distributions have been or contemporaneously are authorized, declared and paid on the LTIP Units; provided, that distributions of assets on liquidation, dissolution or winding up shall be made solely in accordance with the Partners' positive Capital Account balances as provided in Section 5.06(a).

(b) Priority. Subject to the provisions of this Section 4.10, the special provisions of Section 4.11 and Section 5.01(h) hereof and any Vesting Agreement, the LTIP Units shall rank pari passu with the Common Units as to the payment of regular and special periodic or other distributions; provided, that distributions of assets on liquidation, dissolution or winding up shall be made solely in accordance with the Partners' positive Capital Account balances as provided in Section 5.06(a). As to the payment of distributions and as to distribution of assets upon liquidation, dissolution or winding up, any class or series of Partnership Units which by its terms specifies that it shall rank junior to, on a parity with, or senior to the Common Units shall also rank junior to, or pari passu with, or senior to, as the case may be, the LTIP Units; provided, that distributions of assets on liquidation, dissolution or winding up shall be made solely in accordance with the Partners' positive Capital Account balances as provided in Section 5.06(a). Subject to the terms of any Vesting Agreement, an LTIP Unitholder shall be entitled to transfer his or her LTIP Units to the same extent, and subject to the same restrictions as holders of Common Units are entitled to transfer their Common Units pursuant to Article IX.

(c) Special Provisions. LTIP Units shall be subject to the following special provisions:

(i) Vesting Agreements. LTIP Units may, in the sole discretion of the General Partner, be issued subject to vesting, forfeiture and additional restrictions on transfer pursuant to the terms of a Vesting Agreement. The terms of any Vesting Agreement may be modified by the General Partner from time to time in its sole discretion, subject to any restrictions on amendment imposed by the relevant Vesting Agreement or by the Equity Incentive Plan, if applicable. LTIP Units that have vested under the terms of a Vesting Agreement are referred to as "Vested LTIP Units"; all other LTIP Units shall be treated as "Unvested LTIP Units." Upon grant, the grantee of any LTIP Unit shall be treated as a Partner for all purposes. The Partners

acknowledge that the liquidation value of each LTIP Unit shall be zero upon grant, the amount equal to the zero Capital Account balance of such LTIP Unit upon grant, for all purposes (including Section 10.05(d)).

(ii) Forfeiture. Unless otherwise specified in the Vesting Agreement or in any applicable compensatory plan, program or arrangement pursuant to which LTIP Units are issued, upon the occurrence of any event specified in a Vesting Agreement, plan, program or arrangement as resulting in either the right of the Partnership or the General Partner to repurchase LTIP Units at a specified purchase price or some other forfeiture of any LTIP Units, then if the Partnership or the General Partner exercises such right to repurchase or forfeiture or upon the occurrence of the event causing forfeiture in accordance with the applicable Vesting Agreement, plan, program or arrangement, the relevant LTIP Units shall immediately, and without any further action, be treated as cancelled and no longer outstanding for any purpose.

Unless otherwise specified in the Vesting Agreement, plan, program or arrangement, no consideration or other payment shall be due with respect to any LTIP Units that have been forfeited, other than any distributions declared with respect to a Partnership Record Date prior to the effective date of the forfeiture. In connection with any repurchase or forfeiture of LTIP Units, the balance of the portion of the Capital Account of the LTIP Unitholder that is attributable to all of his or her LTIP Units shall be reduced by the amount, if any, by which it exceeds the product of (A) the balance of the LTIP Unitholder's Capital Account attributable to all of the LTIP Units held prior to the repurchase or forfeiture and (B) the quotient obtained by dividing (x) the number of LTIP Units, if any, held by the LTIP Unitholder after the repurchase or forfeiture and (y) the number of LTIP Units held by the LTIP Unitholder prior to the repurchase or forfeiture.

(iii) Allocations. LTIP Unitholders shall be entitled to certain special allocations of gain under Section 5.01(h) hereof.

(iv) Redemption. The Redemption Right provided to Limited Partners under Section 8.05 hereof shall not apply with respect to LTIP Units unless and until they are converted to Common Units as provided in clause (v) below and Section 4.11 hereof.

(v) Conversion to Common Units. Vested LTIP Units are eligible to be converted into Common Units in accordance with Section 4.11 hereof.

(d) Voting. LTIP Unitholders shall (a) have the same voting rights as the holders of Common Units, with all Vested LTIP Units and Unvested LTIP Units voting as a single class with the Common Units and having one vote per LTIP Unit; and (b) have the additional voting rights that are expressly set forth below. So long as any LTIP Units remain outstanding, the Partnership shall not, without the affirmative vote of the holders of a majority of the LTIP Units (Vested LTIP Units and Unvested LTIP Units) outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), amend, alter or repeal, whether by merger, consolidation or otherwise, the provisions of this Agreement applicable to LTIP Units so as to materially and adversely affect (as determined in good faith by the General Partner) any right, privilege or voting power of the LTIP Units or the LTIP Unitholders as such, unless such amendment, alteration, or repeal affects equally, ratably and proportionately the rights, privileges and voting powers of the holders of Common Units; but subject, in any event, to the following provisions:

(i) With respect to any Common Unit Transaction, so long as the LTIP Units are treated in accordance with Section 4.11(f) hereof, the consummation of such Common Unit Transaction shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the LTIP Units or the LTIP Unitholders as such; and

(ii) Any creation or issuance of any Partnership Units or of any class or series of Partnership Interest including without limitation additional Common Units or LTIP Units, whether ranking senior to, junior to, or on a parity with the LTIP Units with respect to distributions and the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the LTIP Units or the LTIP Unitholders as such.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required will be effected, all outstanding LTIP Units shall have been converted into Common Units.

4. Conversion of LTIP Units. The following new Section 4.11 shall be added to the Agreement:

(a) Subject to the provisions of this Section 4.11, an LTIP Unitholder shall have the right (the "Conversion Right"), at such holder's option, at any time to convert all or a portion of such holder's Vested LTIP Units into Common Units; provided, that a holder may not exercise the Conversion Right for less than 1,000 Vested LTIP Units or, if such holder holds less than 1,000 Vested LTIP Units, all of the Vested LTIP Units held by such holder. LTIP Unitholders shall not have the right to convert Unvested LTIP Units into Common Units until they become Vested LTIP Units; provided, that when an LTIP Unitholder is notified of the expected occurrence of an event that will cause such LTIP Unitholder's Unvested LTIP Units to become Vested LTIP Units, such LTIP Unitholder may give the Partnership a Conversion Notice conditioned upon and effective as of the time of vesting and such Conversion Notice, unless subsequently revoked by the LTIP Unitholder, shall be accepted by the Partnership subject to such condition. The General Partner shall have the right at any time to cause a conversion of Vested LTIP Units into Common Units. In all cases, the conversion of any LTIP Units into Common Units shall be subject to the conditions and procedures set forth in this Section 4.11.

(b) A holder of Vested LTIP Units may convert such LTIP Units into an equal number of fully paid and non-assessable Common Units, giving effect to all adjustments (if any) made pursuant to Section 4.10 hereof. Notwithstanding the foregoing, in no event may a holder of Vested LTIP Units convert a number of Vested LTIP Units that exceeds (x) the Economic Capital Account Balance of such Limited Partner, to the extent attributable to its ownership of LTIP Units, divided by (y) the Common Unit Economic Balance, in each case as determined as of the effective date of conversion (the "Capital Account Limitation").

In order to exercise the Conversion Right, an LTIP Unitholder shall deliver a notice (a "Conversion Notice") in the form attached as Exhibit D to the Partnership (with a copy to the General Partner) not less than ten nor more than 60 days prior to a date (the "Conversion Date") specified in such Conversion Notice; provided, that if the General Partner has not given to the LTIP Unitholders notice of a proposed or upcoming Common Unit Transaction at least 30 days prior to the effective date of such Common Unit Transaction, then LTIP Unitholders shall have the right to deliver a Conversion Notice until the earlier of (x) the tenth day after such notice from the General Partner of a Common Unit Transaction or (y) the third Trading Day immediately preceding the effective date of such Common Unit Transaction. A Conversion Notice shall be provided in the manner provided in Section 12.01 hereof. Each LTIP Unitholder covenants and agrees with the Partnership that all Vested LTIP Units to be converted pursuant to this Section 4.11(b) shall be free and clear of all liens. Notwithstanding anything herein to the contrary, a holder of LTIP Units may deliver a Notice of Redemption pursuant to Section 8.05(a) hereof relating to those Common Units that will be issued to such holder upon conversion of such LTIP Units into Common Units in advance of the Conversion Date; provided, that the redemption of such Common Units by the Partnership shall in no event take place until after the Conversion Date. For clarity, it is noted that the objective of this paragraph is to put an LTIP Unitholder in a position where, if such holder so wishes, the Common Units into which such holder's Vested LTIP Units will be converted can be tendered to the Partnership for redemption simultaneously with such conversion, with the further consequence that, if HHTI elects to assume the Partnership's redemption obligation with respect to such Common Units under Section 8.05(b) hereof by delivering to such holder the REIT Shares Amount, then such holder can have the REIT Shares Amount issued to such holder simultaneously with the conversion of such holder's Vested LTIP Units into Common Units. The General Partner and LTIP Unitholder shall reasonably cooperate with each other to coordinate the timing of the events described in the foregoing sentence.

(c) The Partnership, at any time at the election of the General Partner, may cause any number of Vested LTIP Units held by an LTIP Unitholder to be converted (a "Forced Conversion") into an equal number of Common Units, giving effect to all adjustments (if any) made pursuant to Section 4.10 hereof. In order to exercise its right of Forced Conversion, the Partnership shall deliver a notice (a "Forced Conversion Notice") in the form attached as Exhibit E to the applicable LTIP Unitholder not less than ten nor more than 60 days prior to the Conversion Date specified in such Forced Conversion Notice. A Forced Conversion Notice shall be provided in the manner provided in Section 12.01 hereof and shall be revocable by the General Partner at any time prior to the Forced Conversion. The Partnership, at any time at the election of the General Partner may cause any Common Units converted from Vested LTIP Units to be submitted by the holder for redemption pursuant to the exercise of a Redemption Right set forth in

Section 8.05, notwithstanding any holding period, on a Specified Redemption Date determined by the Partnership, by giving notice to the holder in the manner provided by Section 12.01.

(d) A conversion of Vested LTIP Units for which the holder thereof has given a Conversion Notice or the Partnership has given a Forced Conversion Notice shall occur automatically after the close of business on the applicable Conversion Date without any action on the part of such LTIP Unitholder, as of which time such LTIP Unitholder shall be credited on the books and records of the Partnership with the issuance as of the opening of business on the next day of the number of Common Units issuable upon such conversion. After the conversion of LTIP Units as aforesaid, the Partnership shall deliver to such LTIP Unitholder, upon his or her written request, a certificate of the General Partner certifying the number of Common Units and remaining LTIP Units, if any, held by such person immediately after such conversion. The assignee of any Limited Partner pursuant to Article IX hereof may exercise the rights of such Limited Partner pursuant to this Section 4.11 and such Limited Partner shall be bound by the exercise of such rights by the assignee.

(e) For purposes of making future allocations under Section 5.01(h) hereof and applying the Capital Account Limitation, the portion of the Economic Capital Account Balance of the applicable LTIP Unitholder that is treated as attributable to his or her LTIP Units shall be reduced, as of the date of conversion, by the product of the number of LTIP Units converted and the Common Unit Economic Balance.

(f) If the Partnership or the General Partner shall be a party to any Common Unit Transaction (including without limitation a merger, consolidation, unit exchange, self tender offer for all or substantially all Common Units or other business combination or reorganization, or sale of all or substantially all of the Partnership's assets, but excluding any Common Unit Transaction which constitutes an Adjustment Event) in each case as a result of which Common Units shall be exchanged for or converted into the right, or the holders of Common Units shall otherwise be entitled, to receive cash, securities or other property or any combination thereof (each of the foregoing being referred to herein as a "Common Unit Transaction"), then the General Partner shall, subject to the terms of any applicable Equity Incentive Plan or Vesting Agreement, exercise immediately prior to the Common Unit Transaction its right to cause a Forced Conversion with respect to the maximum number of LTIP Units then eligible for conversion, taking into account any allocations that occur in connection with the Common Unit Transaction or that would occur in connection with the Common Unit Transaction if the assets of the Partnership were sold at the Common Unit Transaction price or, if applicable, at a value determined by the General Partner in good faith using the value attributed to the Partnership Units in the context of the Common Unit Transaction (in which case the Conversion Date shall be the effective date of the Common Unit Transaction).

In anticipation of such Forced Conversion and the consummation of the Common Unit Transaction, the Partnership shall use commercially reasonable efforts to cause each LTIP Unitholder to be afforded the right to receive in connection with such Common Unit Transaction in consideration for the Common Units into which such LTIP Unitholder's LTIP Units will be converted the same kind and amount of cash, securities and other property (or any combination thereof) receivable upon the consummation of such Common Unit Transaction by a holder of the same number of Common Units, assuming such holder of Common Units is not a Person with which the Partnership consolidated or into which the Partnership merged or which merged into the Partnership or to which such sale or transfer was made, as the case may be (a "Constituent Person"), or an affiliate of a Constituent Person. In the event that holders of Common Units have the opportunity to elect the form or type of consideration to be received upon consummation of the Common Unit Transaction, prior to such Common Unit Transaction the General Partner shall give prompt written notice to each LTIP Unitholder of such election, and shall use commercially reasonable efforts to afford the LTIP Unitholders the right to elect, by written notice to the General Partner, the form or type of consideration to be received upon conversion of each LTIP Unit held by such holder into Common Units in connection with such Common Unit Transaction. If an LTIP Unitholder fails to make such an election, such holder (and any of its transferees) shall receive upon conversion of each LTIP Unit held by such LTIP Unitholder (or by any of such LTIP Unitholder's transferees) the same kind and amount of consideration that a holder of a Common Unit would receive if such Common Unit holder failed to make such an election. Subject to the rights of the Partnership and the General Partner under any Vesting Agreement and any Equity Incentive Plan, the Partnership shall use commercially reasonable efforts to cause the terms of any Common Unit Transaction to be consistent with the provisions of this Section 4.11(f) and to enter into an agreement with the successor or purchasing entity, as the case may be, for the benefit of any LTIP Unitholders whose LTIP Units will not be converted into Common Units in connection with the Common Unit Transaction that will (i) contain provisions enabling the

holders of LTIP Units that remain outstanding after such Common Unit Transaction to convert their LTIP Units into securities as comparable as reasonably possible under the circumstances to the Common Units and (ii) preserve as far as reasonably possible under the circumstances the distribution, special allocation, conversion, and other rights set forth in this Agreement for the benefit of the LTIP Unitholders.

5. Capital Accounts. Section 4.04 of the Agreement shall be deleted in it entirety and replaced with the following:

A separate capital account (a "Capital Account") shall be established and maintained for each Partner in accordance with Regulations Section 1.704-1(b)(2)(iv). If (i) a new or existing Partner acquires an additional Partnership Unit in exchange for more than a de minimis Capital Contribution, (ii) the Partnership distributes to a Partner more than a de minimis amount of Partnership property as consideration for a Partnership Unit, (iii) the Partnership is liquidated within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g) or (iv) the Partnership grants a Partnership Unit (other than a de minimis Partnership Unit) as consideration for the provision of services to or for the benefit of the Partnership to an existing Partner acting in a Partner capacity, or to a new Partner acting in a Partner capacity or in anticipation of being a Partner, the General Partner shall revalue the property of the Partnership to its fair market value (as determined by the General Partner, in its sole and absolute discretion, and taking into account Section 7701(g) of the Code) in accordance with Regulations Section 1.704-1(b)(2)(iv)(f); provided, that (i) the issuance of any LTIP Unit shall be deemed to require a revaluation pursuant to this Section 4.04 and (ii) the General Partner may elect not to revalue the property of the Partnership in connection with the issuance of additional Partnership Units pursuant to Section 4.02 to the extent it determines, in its sole and absolute discretion, that revaluing the property of the Partnership is not necessary or appropriate to reflect the relative economic interests of the Partners. When the Partnership's property is revalued by the General Partner, the Capital Accounts of the Partners shall be adjusted in accordance with Regulations Sections 1.704-1 (b)(2)(iv)(f) and (g), which generally require such Capital Accounts to be adjusted to reflect the manner in which the unrealized gain or loss inherent in such property (that has not been reflected in the Capital Accounts previously) would be allocated among the Partners pursuant to Section 5.01 hereof if there were a taxable disposition of such property for its fair market value (as determined by the General Partner, in its sole and absolute discretion, and taking into account Section 7701(g) of the Code) on the date of the revaluation.

6. Special Allocations Regarding LTIP Units. The following new Section 5.01(h) shall be added to the Agreement and the current Section 5.01(h) shall be redesignated as Section 5.01(i):

(g) Special Allocations Regarding LTIP Units. Notwithstanding the provisions of Section 5.01(a) hereof, Liquidating Gains shall first be allocated to the LTIP Unitholders until their Economic Capital Account Balances, to the extent attributable to their ownership of LTIP Units, are equal to (i) the Common Unit Economic Balance, multiplied by (ii) the number of their LTIP Units. For this purpose, "Liquidating Gains" means net capital gains realized in connection with the actual or hypothetical sale of all or substantially all of the assets of the Partnership, including but not limited to net capital gain realized in connection with an adjustment to the value of Partnership assets under Section 704(b) of the Code. The "Economic Capital Account Balances" of the LTIP Unit holders will be equal to their Capital Account balances plus shares of Partner Nonrecourse Debt Minimum Gain or Partnership Minimum Gain (after reduction to reflect the items described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6)) to the extent attributable to their ownership of LTIP Units. Similarly, the "Common Unit Economic Balance" shall mean (i) the Capital Account balance of HHTI, plus the amount of HHTI's share of any Partner Nonrecourse Debt Minimum Gain or Partnership Minimum Gain (after reduction to reflect the items described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6)), in either case to the extent attributable to HHTI's direct or indirect ownership of Common Units and computed on a hypothetical basis after taking into account all allocations through the date on which any allocation is made under this Section 5.01(h), divided by (ii) the number of Common Units directly or indirectly owned by HHTI. Any such allocations shall be made among the LTIP Unitholders in proportion to the amounts required to be allocated to each under this Section 5.01(h). The parties agree that the intent of this Section 5.01(h) is to make the Capital Account balance associated with each LTIP Unit to be economically equivalent to the Capital Account balance associated with Common Units directly or indirectly owned by HHTI (on a per-Unit basis).

7. Redemption Right. The first sentence of Section 8.05 shall be deleted and replaced with the following:

(a) Subject to Sections 8.05(b), 8.05(c), 8.05(d), 8.05(e) and 8.05(f) and the provisions of any agreement between the Partnership and one or more Limited Partners, beginning on the date that is twelve months after the date of issuance of any Common Units, or, in the case of any Common Units that are issued upon the conversion of LTIP Units, the date that is twelve months after the date of issuance of any LTIP Units that have been converted into Common Units, each Limited Partner (other than HHTI or any Subsidiary of HHTI) shall have the right (the "Redemption Right") to require the Partnership to redeem on a Specified Redemption Date all or a portion of such Limited Partner's Common Units at a redemption price equal to and in the form of the Cash Amount.

8. Tax Matters Partner; Tax Elections; Special Basis Adjustments. The following new Section 10.05(d) is added to the end of Section 10.05:

(d) The Partners, intending to be legally bound, hereby authorize the Partnership to make an election (the "Safe Harbor Election") to have the "liquidation value" safe harbor provided in Proposed Treasury Regulation § 1.83-3(1) and the Proposed Revenue Procedure set forth in Internal Revenue Service Notice 2005-43, as such safe harbor may be modified when such proposed guidance is issued in final form or as amended by subsequently issued guidance (the "Safe Harbor"), apply to any interest in the Partnership transferred to a service provider while the Safe Harbor Election remains effective, to the extent such interest meets the Safe Harbor requirements (collectively, such interests are referred to as "Safe Harbor Interests"). The Tax Matters Partner is authorized and directed to execute and file the Safe Harbor Election on behalf of the Partnership and the Partners. The Partnership and the Partners (including any person to whom an interest in the Partnership is transferred in connection with the performance of services) hereby agree to comply with all requirements of the Safe Harbor (including forfeiture allocations) with respect to all Safe Harbor Interests and to prepare and file all U.S. federal income tax returns reporting the tax consequences of the issuance and vesting of Safe Harbor Interests consistent with such final Safe Harbor guidance. The Partnership is also authorized to take such actions as are necessary to achieve, under the Safe Harbor, the effect that the election and compliance with all requirements of the Safe Harbor referred to above would be intended to achieve under Proposed Treasury Regulation § 1.83-3, including amending this Agreement. In the event the Safe Harbor Election is rendered moot or obsolete by future legislation that amends Section 83 of the Code, this Section 10.05(d) shall have no effect. The liquidation value of each LTIP Unit shall be zero upon grant as provided in Section 4.10(c)(i).

9. In order to reflect the issuance of the LTIP Units, Exhibit A to the Agreement is hereby amended by adding to the end of such Exhibit A the following table:

Partner	Cash Contribution	Agreed Value of Cash Contribution	LTIP Units	Percentage Interest of LTIP Units
	$0	$0		

10. New Exhibit D and Exhibit E to the Agreement are added to the Agreement in the form attached hereto.

11. The foregoing recitals are incorporated in and are part of this Second Amendment.

12. Except as specifically defined herein, all capitalized terms shall have the definitions provided in the Partnership Agreement. This Second Amendment has been authorized by the General Partner pursuant to Article XI of the Partnership Agreement and does not require execution by the Limited Partners. No other changes to the Partnership Agreement are authorized under this Second Amendment.

[Signature Page Follows.]

IN WITNESS WHEREOF, this Second Amendment has been executed as of the date first above written.

GENERAL PARTNER:
SUPERTEL HOSPITALITY REIT TRUST,
a Maryland real estate investment trust
By: /s/ Patrick E. Beans
Name: Patrick E. Beans
Title: President and Secretary

EXHIBIT D

NOTICE OF ELECTION BY PARTNER TO CONVERT LTIP UNITS INTO COMMON UNITS

The undersigned holder of LTIP Units hereby irrevocably: (i) elects to convert the number of LTIP Units in Supertel Limited Partnership (the "Partnership") set forth below into Common Units in accordance with the terms of the Agreement of Limited Partnership of the Partnership, as amended; and (ii) directs that any cash in lieu of Common Units that may be deliverable upon such conversion be delivered to the address specified below. The undersigned hereby represents, warrants and certifies that the undersigned: (a) has title to such LTIP Units, free and clear of the rights or interests of any other person or entity other than the Partnership or the General Partner; (b) has the full right, power, and authority to cause the conversion of such LTIP Units as provided herein; and (c) has obtained the consent to or approval of all persons or entities, if any, having the right to consent to or approve such conversion.

Name of Holder:_____

(Please Print: Exact Name as Registered with Partnership)

Number of LTIP Units to be Converted: _____

Date of this Notice: _____

_____

(Signature of Holder: Sign Exact Name as Registered with Partnership)

_____

(Street Address)

_____

(City) (State) (Zip Code)

Signature Guaranteed by:_____

EXHIBIT E

NOTICE OF ELECTION BY PARTNERSHIP TO FORCE CONVERSION OF LTIP UNITS INTO COMMON UNITS

Supertel Limited Partnership (the "Partnership") hereby elects to cause the LTIP Units held by the holder of the LTIP Units set forth below to be converted into Common Units in accordance with the terms of the Agreement of Limited Partnership of the Partnership, as amended, effected as of _____ (the "Conversion Date").

Name of Holder: _____

(Please Print: Exact Name as Registered with Partnership)

Number of LTIP Units to be Converted: _____

Date of this Notice: _____

AMENDMENT NO. 1
TO
THIRD AMENDED AND RESTATED AGREEMENT
OF LIMITED PARTNERSHIP
OF
HUMPHREY HOSPITALITY LIMITED PARTNERSHIP

The undersigned hereby certifies that the Third Amended and Restated Agreement of Limited Partnership of Humphrey Hospitality Limited Partnership, dated as of June 30, 2000 (the "Partnership Agreement"), is hereby further amended, effective May 26, 2005, by written consent of the General Partner, so that the first sentence of Section 2.02 of the Partnership Agreement is revised in its entirety to read as follows:

"The name of the Partnership shall be Supertel Limited Partnership."

IN WITNESS WHEREOF, the undersigned has set his hand effective this 26th day of May, 2005.

GENERAL PARTNER:
HUMPHREY HOSPITALITY REIT TRUST
/s/ Paul J. Schulte
By: Paul J. Schulte
Its: President

THIRD AMENDED AND RESTATED AGREEMENT
OF LIMITED PARTNERSHIP
OF
HUMPHREY HOSPITALITY LIMITED PARTNERSHIP

THIS THIRD AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF HUMPHREY HOSPITALITY LIMITED PARTNERSHIP (the "Agreement") is made and entered into as of June 30, 2000, by and among Humphrey Hospitality REIT Trust, a Maryland real estate investment trust, as General Partner (the "General Partner"), and James I. Humphrey, Jr., Humphrey Associates, Inc., a Maryland corporation, Humphrey Development, Inc., a Maryland corporation, Bethany H. Hooper, Randy P. Smith and Timothy P. Barila, as Majority Limited Partners (the "Limited Partners").

RECITALS

WHEREAS, Humphrey Hospitality Limited Partnership (the "Partnership") was formed as a limited partnership under the laws of the Commonwealth of Virginia upon the filing of its Certificate of Limited Partnership with the Virginia State Corporation Commission on August 29, 1994, and is governed by a Second Amended and Restated Agreement of Limited Partnership, dated September 2, 1997, as amended by a First Amendment dated June 1, 1998, a Second Amendment dated August 18, 1998, a Third Amendment dated December 31, 1998, a Fourth Amendment dated October 20, 1999, and a Fifth Amendment dated October 26, 1999 to make certain clarifying changes and to reflect certain changes in ownership (collectively, the "Partnership Agreement").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises contained herein and in the Partnership Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I
DEFINED TERMS

The following defined terms used in this Agreement shall have the meanings specified below:

"Act" means the Virginia Revised Uniform Limited Partnership Act, as it may be amended from time to time.

"Additional Limited Partner" means a Person admitted to this Partnership as a Limited Partner pursuant to Section 4.02 hereof.

"Administrative Expenses" means (i) all administrative and operating costs and expenses incurred by the Partnership, (ii) those administrative costs and expenses of the General Partner and HHTI, including any salaries or other payments to directors, officers and/or employees of the General Partner and HHTI and any accounting and legal expenses of the General Partner and HHTI, which expenses, the Partners have agreed, are expenses of the Partnership and not the General Partner and HHTI, and (iii) to the extent not included in clause (ii) above, REIT Expenses; provided, however, that Administrative Expenses shall not include (A) any administrative costs and expenses incurred by the General Partner and HHTI that are attributable to Properties, or ownership interests in entities that own Properties, that are owned by the General Partner or HHTI directly, including but not limited to HHTI's ownership interests in Solomons Beacon Inn Limited Partnership and E&P Financing Limited Partnership or (B) interest expenses attributable to any loans incurred by HHTI, the proceeds of which are distributed to its shareholders or other equity holders pursuant to Section 4.03 hereof.

"Affiliate" means, (i) any Person that, directly or indirectly, controls or is controlled by or is under common control with such Person, (ii) any other Person that owns, beneficially, directly or indirectly, 5% or more of the outstanding capital stock, shares or equity interests of such Person, or (iii) any officer, director, employee, partner or trustee of such Person or any Person controlling, controlled by or under common control with such Person (excluding trustees and persons serving in similar capacities who are not otherwise an Affiliate of such Person). For the purposes of this definition, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities, partnership interests or other equity interests.

"Agreed Value" means the fair market value of a Partner's non-cash Capital Contribution as of the date hereof as agreed to by the Partners. For purposes of this Partnership Agreement, the Agreed Value of a Partner's non-cash Capital Contribution shall be equal to the number of Partnership Units received by such Partner in exchange for a Property or an interest therein or in connection with the merger of a partnership of which such person is a partner with and into the Partnership, or for any other non-cash asset so contributed, multiplied by the Public Offering Price or, if the contribution is made after the date hereof, the "Market Price" calculated in accordance with the second and third sentences of the definition of "Cash Amount", or any agreed upon value as set forth in Exhibit A. The names and addresses of the Partners, number of Partnership Units issued to each Partner, and the Agreed Value of non-cash Capital Contributions is set forth on Exhibit A.

"Agreement" means this Third Amended and Restated Agreement of Limited Partnership.

"Articles of Incorporation" means the Amended and Restated Articles of Incorporation of HHTI filed with the Secretary of Virginia State Corporation Commission, as amended or restated from time to time.

"Capital Account" has the meaning provided in Section 4.04 hereof.

"Capital Contribution" means the total amount of capital initially contributed or agreed to be contributed, as the context requires, to the Partnership by each Partner pursuant to the terms of the Agreement. Any reference to the Capital Contribution of a Partner shall include the Capital Contribution made by a predecessor holder of the Partnership Interest of such Partner. The paid-in Capital Contribution shall mean the cash amount or the Agreed Value of other assets actually contributed by each Partner to the capital of the Partnership.

"Capital Transaction" means the refinancing, sale, exchange, condemnation, recovery of a damage award or insurance proceeds (other than business or rental interruption insurance proceeds not reinvested in the repair or reconstruction of Properties), or other disposition of any of Property (or the Partnership's interest therein).

"Cash Amount" means an amount of cash per Partnership Unit equal to the value of the REIT Shares Amount on the date of receipt by HHTI of a Notice of Redemption. Except as set forth in any agreement between the Partnership and a Partner dealing with the redemption of Partnership Units, the value of the REIT Shares Amount shall be based on the average of the daily market price of REIT Shares for the ten consecutive trading days immediately preceding the date of such valuation. The market price for each such trading day shall be: (i) if the REIT Shares are listed or admitted to trading on any securities exchange or the NASDAQ-National Market System, the sale price, regular way, on such day, or if no such sale takes place on such day, the average of the closing bid and asked prices, regular way, on such day, (ii) if the REIT Shares are not listed or admitted to trading on any securities exchange or the NASDAQ-National Market System, the last reported sale price on such day or, if no sale takes place on such day, the average of the closing bid and asked prices on such day, as reported by a reliable quotation source designated by HHTI and by a majority in interest of the Limited Partners; or (iii) if the REIT Shares are not listed or admitted to trading on any securities exchange or the NASDAQ-National Market System and no such last reported sale price or closing bid and asked prices are available, the average of the reported high bid and low asked prices on such day, as reported by a reliable quotation source designated by HHTI and by a majority in interest of the Limited Partners, or if there shall be no bid and asked prices on such day, the average of the high bid and low asked prices, as so reported, on the most recent day (not more than 10 days prior to the date in question) for which prices have been so reported; provided that if there are no bid and asked prices reported during the ten days prior to the date in question, the value of the REIT Shares shall be determined by an appraiser mutually agreed upon by the General Partner and a majority in interest of the Limited Partners (excluding the General Partner). In the event that the parties are unable to agree upon an appraiser, the General Partner and a majority in interest of the Limited Partners (excluding the General Partner) each shall select an appraiser. Each such appraiser shall complete an appraisal of the fair market value of the REIT Shares within 20 days of the first attempt at evaluating the REIT Shares, and the fair market value of the REIT Shares

shall be the average of the two appraisals; provided, however, that if the higher appraisal exceeds the lower appraisal by more than 20% of the lower appraisal, the two appraisers shall select a third appraiser who shall complete an appraisal of the fair market value of the REIT Shares no later than 30 days after the first attempt at evaluating the REIT Shares. In such case, the fair market value of the REIT Shares shall be the average of the two appraisals closest in value.

"Certificate" means any instrument or document that is required under the laws of the Commonwealth of Virginia, or any other jurisdiction in which the Partnership conducts business, to be signed and sworn to by the Partners of the Partnership (either by themselves or pursuant to the power-of-attorney granted to the General Partner in Section 8.02 hereof) and filed for recording in the appropriate public offices within the Commonwealth of Virginia or such other jurisdiction to perfect or maintain the Partnership as a limited partnership, to effect the admission, withdrawal, or substitution of any Partner of the Partnership, or to protect the limited liability of the Limited Partners as limited partners under the laws of the Commonwealth of Virginia or such other jurisdiction.

"Code" means the Internal Revenue Code of 1986, as amended, and as hereafter amended from time to time. Reference to any particular provision of the Code shall mean that provision in the Code at the date hereof and any succeeding provision of the Code.

"Commission" means the U.S. Securities and Exchange Commission.

"Common Units" shall mean all Partnership Units other than Preferred Units.

"Conversion Factor" means one (1), provided that in the event that the General Partner (i) declares or pays a dividend on its outstanding REIT Shares in REIT Shares or makes a distribution to all holders of its outstanding REIT Shares in REIT Shares, (ii) subdivides its outstanding REIT Shares, or (iii) combines its outstanding REIT Shares into a smaller number of REIT Shares, the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction, the numerator of which shall be the number of REIT Shares issued and outstanding on the record date for such dividend, distribution, subdivision or combination (assuming for such purposes that such dividend, distribution, subdivision or combination has occurred as of such time), and the denominator of which shall be the actual number of REIT Shares (determined without the above assumption) issued and outstanding on such date. Any adjustment to the Conversion Factor shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

"Event of Bankruptcy" as to any Person means the filing of a petition for relief as to such Person as debtor or bankrupt under the Bankruptcy Code of 1978 or similar provision of law of any jurisdiction (except if such petition is contested by such Person and has been dismissed within 90 days); insolvency or bankruptcy of such Person as finally determined by a court proceeding; filing by such Person of a petition or application to accomplish the same or for the appointment of a receiver or a trustee for such Person or a substantial part of his assets; commencement of any proceedings relating to such Person as a debtor under any other reorganization, arrangement, insolvency, adjustment of debt or liquidation law of any jurisdiction, whether now in existence or hereinafter in effect, either by such Person or by another, provided that if such proceeding is commenced by another, such Person indicates his approval of such proceeding, consents thereto or acquiesces therein, or such proceeding is contested by such Person and has not been finally dismissed within 90 days.

"Financial Statement" means an annual balance sheet, a statement of partners' capital as of the end of such year, as well as statements of cash flow and income, all in accordance with generally accepted accounting principles and accompanied by an independent auditor's report.

"Funding Loan" means any loan advanced to the Partnership by the General Partner or HHTI for any proper Partnership purpose.

"General Partner" means Humphrey Hospitality REIT Trust, a Maryland real estate investment trust, and any Person who becomes a substitute or additional General Partner as provided herein, and any of their successors as General Partner.

"General Partnership Interest" means a Partnership Interest held by the General Partner that is a general partnership interest.

"HHTI" means Humphrey Hospitality Trust, Inc., a Virginia corporation.

"Indemnifying Party" means the party that would otherwise be required to provide indemnification or the indemnifying party for the purposes of Section 8.06(e) hereof.

"Indemnitee" means (i) any Person made a party to a proceeding by reason of his status as the General Partner or a director or officer of the Partnership or the General Partner, and (ii) such other Persons (including Affiliates of the General Partner or the Partnership) as the General Partner may designate from time to time, in its sole and absolute discretion.

"Initial Hotels" means the following hotels: (1) Comfort Inn - Dahlgren, Virginia, (2) Comfort Inn - Dublin, Virginia, (3) Comfort Inn - Elizabethton, Tennessee, (4) Comfort Inn - Farmville, Virginia, (5) Comfort Inn - Morgantown, West Virginia, (6) Comfort Inn - Princeton, West Virginia, (7) Comfort Inn - Beacon Marina, Solomons, Maryland and (8) Rodeway Inn - Wytheville, Virginia.

"Initial Offering" means the initial offer and sale by HHTI and the purchase by the Underwriters (as defined in the Prospectus) of the common shares of HHTI for sale to the public.

"Limited Partner" means any Person named as a Limited Partner on Exhibit A attached hereto, and any Person who becomes a Substitute or Additional Limited Partner, in such Person's capacity as a Limited Partner in the Partnership.

"Limited Partnership Interest" means the ownership interest of a Limited Partner in the Partnership at any particular time, including the right of such Limited Partner to any and all benefits to which such Limited Partner may be entitled as provided in this Agreement and in the Act, together with the obligations of such Limited Partner to comply with all the provisions of this Agreement and of such Act.

"Loss" has the meaning provided in Section 5.01(f) hereof.

"New Securities" means any REIT Shares in addition to those offered in the Initial Offering and issued in connection with a redemption pursuant to Section 8.05 hereof or any rights, options warrants or convertible or exchangeable securities containing the right to subscribe for or purchase REIT Shares.

"Notice of Redemption" means the Notice of Exercise of Redemption Right substantially in the form attached as Exhibit B hereto.

"Offer" means a purchase, tender or exchange offer.

"Offering" means the initial offer and sale by HHTI and the purchase by the Underwriters (as defined in the Prospectus) of the common shares of HHTI for sale to the public.

"Original Limited Partners" means James I. Humphrey, Jr. and Humphrey Associates, Inc.

"Partner" means any General Partner or Limited Partner.

"Partner Non-recourse Debt Minimum Gain" has the meaning set forth in Regulations Section 1.704-2(i). A Partner's share of Partner Non-recourse Debt Minimum Gain shall be determined in accordance with Regulations Section 1.704- 2(i)(5).

"Partnership Interest" means an ownership interest in the Partnership representing a Capital Contribution by either a Limited Partner or the General Partner and includes any and all benefits to which the holder of such a Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement.

"Partnership Minimum Gain" has the meaning set forth in Regulations Section 1.704-2(d). In accordance with Regulations Section 1.704-2(d), the amount of Partnership Minimum Gain is determined by first computing, for each Partnership non-recourse liability, any gain the Partnership would realize if it disposed of the property subject to that liability for no consideration other than full satisfaction of the liability, and then aggregating the separately computed gains. A Partner's share of Partnership Minimum Gain shall be determined in accordance with Regulations Section 1.704-2(g)(1).

"Partnership Record Date" means the record date established by the General Partner for the distribution of Distributable Cash pursuant to Section 5.02 hereof, which record date shall be the same as the record date established by HHTI for a distribution to its shareholders of some or all of its portion of such distribution.

"Partnership Unit" means a fractional, undivided share of the Partnership Interests of all Partners issued hereunder. As of the date of this Agreement, there shall be considered to be the amount of Partnership Units outstanding, as set forth on Exhibit A. Partnership Units shall consist of both Common Units and Preferred Units.

"Percentage Interest" means the percentage ownership interest in the Partnership of each Partner, as determined by dividing the Partnership Units owned by a Partner by the total number of Partnership Units then outstanding. The Percentage Interest of each Partner is as set forth opposite its respective name on Exhibit A.

"Person" means any individual, partnership, corporation, limited liability company, joint venture, trust or other entity.

"Preferred Units" shall mean each special class of Preferred Units, the specific terms of which shall be attached hereto as exhibits found under Exhibit C.

"Profit" has the meaning provided in Section 5.01(f) hereof.

"Property" means any hotel property or other investment in which the Partnership holds an ownership interest.

"Prospectus" means the final prospectus delivered to purchasers of HHTI's common stock in the Offering.

"Public Offering Price" shall mean the initial public offering price set forth in the Prospectus.

"Redeeming Partner" has the meaning provided in Section 8.05(a) hereof.

"Redemption Amount" means either the Cash Amount or the REIT Shares Amount, as selected by HHTI in its sole discretion pursuant to Section 8.05(c) hereof.

"Redemption Right" has the meaning provided in Section 8.05(a) hereof.

"Redemption Shares" are the REIT Shares that may be issued in redemption of Partnership Units under Section 8.05 (a) hereof.

"Regulations" means the Federal Income Tax Regulations issued under the Code, as amended and as hereafter amended from time to time. Reference to any particular provision of the Regulations shall mean that provision of the Regulations on the date hereof and any succeeding provision of the Regulations.

"REIT" means a real estate investment trust under Sections 856 through 860 of the Code.

"REIT Expenses" means (i) costs and expenses relating to the formation and continuity of existence of HHTI and any Subsidiaries thereof (which Subsidiaries shall, for purposes of this definition, be included within all references to HHTI in this definition), including taxes, fees and assessments associated therewith, any and all costs, expenses or fees payable to any director, officer, or employee of HHTI, (ii) costs and expenses relating to the public offering and registration of securities by HHTI and all statements, reports, fees and expenses incidental thereto, including underwriting discounts and selling commissions applicable to any such offering of securities, (iii) costs and expenses associated with the preparation and filing of any periodic reports by HHTI under federal, state or local laws or regulations, including filings with the Commission, (iv) costs and expenses associated with compliance by HHTI with laws, rules and regulations promulgated by any regulatory body, including the Commission, and (v) all other operating or administrative costs of HHTI incurred in the ordinary course of its business on behalf of the Partnership.

"REIT Share" means a common share of HHTI.

"REIT Shares Amount" shall mean a number of REIT Shares equal to the product of the number of Partnership Common Units offered for redemption by a Redeeming Partner, multiplied by the Conversion Factor; provided that in the event HHTI issues to all holders of REIT Shares rights, options, warrants or convertible or exchangeable securities entitling the shareholders to subscribe for or purchase REIT Shares, or any other securities or property (collectively, the "rights") , then the REIT Shares Amount shall also include such rights that a holder of that number of REIT Shares would be entitled to receive.

"Securities Act" means the Securities Act of 1933 as amended.

"Service" means the Internal Revenue Service.

"Shelf Registration" means a shelf registration statement under Rule 415 of the Securities Act, or any similar rule that may be adopted by the Commission pursuant to Section 8.06 hereof.

"Specified Redemption Date" means the first business day of the month that is at least 10 business days after the receipt by HHTI of the Notice of Redemption.

"Subsidiary" means, with respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests is owned, directly or indirectly, by such Person.

"Subsidiary Partnership" means Solomons Beacon Inn Limited Partnership, a Maryland limited Partnership.

"Substitute Limited Partner" means any Person admitted to the Partnership as a Limited Partner pursuant to Section 9.03 hereof.

"Surviving General Partner" means the successor or surviving entity of a merger or consolidation of the General Partner with another entity.

"Transaction" means, with respect to HHTI any merger, consolidation, or other combination with or into another Person or sale of all or substantially all of its assets or any reclassification or any recapitalization or change of outstanding REIT Shares (other than a change in par value or from par value to no par value, or as a result of a subdivision or combination of REIT Shares).

"Transfer" means collectively any offer, sale, assignment, hypothecation, pledge or transfer, of a Limited Partnership Interest by a Limited Partner, in whole or in part, whether voluntarily or by operation of law or at judicial sale or otherwise.

ARTICLE II
PARTNERSHIP CONTINUATION AND IDENTIFICATION

2.01 Continuation. The Partners hereby agree to continue the Partnership pursuant to the Act and upon the terms and conditions set forth in this Agreement.

2.02 Name, Office and Registered Agent. The name of the Partnership shall be Humphrey Hospitality Limited Partnership. The specified office and place of business of the Partnership shall be 12301 Old Columbia Pike, Silver Spring, Maryland 20904 until September 12, 2000 and thereafter shall be 7170 Riverwood Drive, Columbia, Maryland 21045. The General Partner may at any time change the location of such office, provided the General Partner gives notice to the Partners of any such change. The name and address of the Partnership's registered agent is Thurston R. Moore, Riverfront Plaza - East Tower, 951 E. Byrd St., Richmond, Virginia 23219. The sole duty of the registered agent as such is to forward to the Partnership any notice that is served on him as registered agent.

2.03 Partners.

(a) The General Partner of the Partnership is Humphrey Hospitality REIT Trust, a Maryland real estate investment trust. Its principal place of business shall be the same as that of the Partnership.

(b) The Limited Partners shall be those Persons identified as Limited Partners in Exhibit A hereto, as amended from time to time. The Limited Partners (other than the Original Limited Partners) hereby are admitted as Limited Partners.

2.04 Term and Dissolution.

(a) The term of the Partnership shall continue in full force and effect until December 31, 2050, except that the Partnership shall be dissolved upon the happening of any of the following events:

(i) The occurrence of an Event of Bankruptcy as to a General Partner or the dissolution, death or withdrawal of a General Partner unless the business of the Partnership is continued pursuant to Section 7.03(b) hereof; provided that if a General Partner is on the date of such occurrence a partnership, the dissolution of such General Partner as a result of the dissolution, death, withdrawal, removal or Event of Bankruptcy of a partner in such partnership shall not be an event of dissolution of the Partnership if the business of such General Partner is continued by the remaining partner or partners, either alone or with additional partners, and such General Partner and such partners comply with any other applicable requirements of this Agreement;

(ii) The passage of 90 days after the sale or other disposition of all or substantially all the assets of the Partnership; (provided that if the Partnership receives an installment obligation as consideration for such sale or other disposition, the Partnership shall continue, unless sooner dissolved under the provisions of this Agreement, until such time as such note or notes are paid in full);

(iii) The redemption of all Limited Partnership Interests (other than any of such interests held by the General Partner); or

(iv) The election by the General Partner that the Partnership should be dissolved.

(b) Upon dissolution of the Partnership (unless the business of the Partnership is continued pursuant to Section 7.03(b) hereof), the General Partner (or its trustee, receiver, successor or legal representative) shall amend or cancel the Certificate and liquidate the Partnership's assets and apply and distribute the proceeds thereof in accordance with Section 5.06 hereof. Notwithstanding the foregoing, the liquidating General Partner may either (i) defer liquidation of, or withhold from distribution for a reasonable time, any assets of the Partnership (including those necessary to satisfy the Partnership's debts and obligations), or (ii) distribute the assets to the Partners in kind.

2.05 Filing of Certificate and Perfection of Limited Partnership. The General Partner shall execute, acknowledge, record and file at the expense of the Partnership, the Certificate and any and all amendments thereto and all requisite fictitious name statements and notices in such places and jurisdictions as may be necessary to cause the Partnership to be treated as a limited partnership under, and otherwise to comply with, the laws of each state or other jurisdiction in which the Partnership conducts business.

ARTICLE III
BUSINESS OF THE PARTNERSHIP

The purpose and nature of the business to be conducted by the Partnership is (i) to conduct any business that may be lawfully conducted by a limited partnership organized pursuant to the Act, provided, however, that such business shall be limited to and conducted in such a manner as to permit HHTI at all times to qualify as a REIT, unless HHTI otherwise ceases to qualify as a REIT, (ii) to enter into any partnership, joint venture or other similar arrangement to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing and (iii) to do anything necessary or incidental to the foregoing. HHTI and the General Partner shall also be empowered to do any and all acts and things necessary or prudent to ensure that the Partnership will not be classified as a "publicly traded partnership" for the purposes of Section 7704(a) of the Code.

ARTICLE IV
CAPITAL CONTRIBUTIONS AND ACCOUNTS

4.01 Capital Contributions. The General Partner shall contribute to the capital of the Partnership cash in an amount set forth opposite its name on Exhibit A, which shall represent the gross proceeds of the Offering. The Limited Partners shall contribute to the capital of the Partnership cash and interests in one or more of the Initial Hotels as set forth opposite their names on Exhibit A. The Agreed Values of the Limited Partners' ownership interests in the Initial Hotels that are contributed to the Partnership are as set forth opposite their names on Exhibit A.

4.02 Additional Capital Contributions and Issuances of Additional Partnership Interests. Except as provided in this Section 4.02 or in Section 4.03, the Partners shall have no right or obligation to make any additional Capital Contributions or loans to the Partnership. The General Partner may contribute additional capital to the Partnership, from time to time, and receive additional Partnership Interests in respect thereof, in the manner contemplated in this Section 4.02.

(a) Issuances of Additional Partnership Interests.

(i) General. The General Partner is hereby authorized to cause the Partnership to issue such additional Partnership Interests in the form of Partnership Units for any Partnership purpose at any time or from time to time, to the Partners (including the General Partner) or to other Persons for such consideration and on such terms and conditions as shall be established by the General Partner in its sole and absolute discretion, all without the approval of any Limited Partners. Upon such issuance of Partnership Units hereunder, the General Partner is hereby authorized to amend Exhibit A (and, if applicable, Exhibit C) attached hereto to reflect such issuance. Any additional Partnership Interests issued thereby may be issued in one or more classes, or one or more series of any of such classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to Limited Partnership Interests, all as shall be determined by the General Partner in its sole and absolute discretion and without the approval of any Limited Partner, subject to Virginia law, including, without limitation, (i) the allocations of items of Partnership income, gain, loss, deduction and credit to each such class or series of Partnership Interests; (ii) the right of each such class or series of Partnership Interests to share in Partnership distributions; and (iii) the rights of each such class or series of Partnership Interests upon dissolution and liquidation of the Partnership; provided, however, that no additional Partnership Interests shall be issued to the General Partner unless either:

(1)(A) the additional Partnership Interests are issued in connection with an issuance of shares of or other interests in HHTI, which shares or interests have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the additional Partnership Interests issued to the General Partner by the Partnership in accordance with this Section 4.02 and (B) the General Partner shall make a Capital Contribution to the Partnership in an amount equal to the proceeds raised in connection with the issuance of such shares of HHTI or other interests in HHTI, or

(2) the additional Partnership Interests are issued to all Partners in proportion to their respective Percentage Interests.

Without limiting the foregoing, the General Partner is expressly authorized to cause the Partnership to issue Partnership Units for less than fair market value, so long as the General Partner concludes in good faith that such issuance is in the best interests of the General Partner and the Partnership.

(ii) Upon Issuance of New Securities. After the initial public offering for HHTI (the "Initial Offering"), HHTI shall not issue any additional REIT Shares (other than REIT Shares issued in connection with a redemption pursuant to Section 8.05 hereof) or rights, options, warrants or convertible or exchangeable securities

containing the right to subscribe for or purchase REIT Shares (collectively, "New Securities") other than to all holders of REIT Shares, unless (A) the General Partner shall cause the Partnership to issue to the General Partner, Partnership Interests or rights, options, warrants or convertible or exchangeable securities of the Partnership having designations, preferences and other rights, all such that the economic interests are substantially similar to those of the New Securities, and (B) HHTI contributes to the General Partner and the General Partner contributes to the Partnership the proceeds from the issuance of such New Securities and from the exercise of rights contained in such New Securities to the Partnership; provided, however, that HHTI is allowed to issue New Securities in connection with an acquisition of property to be held directly by HHTI, but if and only if such direct acquisition and issuance of New Securities have been approved and determined to be in the best interests of HHTI, the General Partner and the Partnership by a majority of the directors of HHTI, which majority includes a majority of the Independent Directors (as defined in the Articles of Incorporation). Without limiting the foregoing, HHTI is expressly authorized to issue New Securities for less than fair market value and to cause the Partnership to issue to the General Partner corresponding Partnership Interests, so long as (x) HHTI concludes in good faith that such issuance is in the best interests of HHTI, the General Partner and the Partnership (for example, and not by way of limitation, the issuance of REIT Shares and corresponding Partnership Units pursuant to an employee stock purchase plan providing for employee purchases of REIT Shares at a discount from fair market value or employee stock options that have an exercise price that is less than the fair market value of the REIT Shares, either at the time of issuance or at the time of exercise), and (y) HHTI contributes to the General Partner and the General Partner contributes to the Partnership all proceeds from such issuance. By way of example, in the event HHTI issues REIT Shares for a cash purchase price and contributes all of the proceeds of such issuance to the General Partner for contribution to the Partnership as required hereunder, the General Partner shall be issued a number of additional Partnership Units equal to the product of (A) the number of such REIT Shares issued by HHTI, the proceeds of which were so contributed, multiplied by (B) a fraction, the numerator of which is one hundred percent (100%), and the denominator of which is the Conversion Factor in effect on the date of such contribution.

(b) Certain Deemed Contributions of Proceeds of Issuance of Shares. In connection with any and all issuance of REIT Shares, HHTI shall contribute to the General Partner and the General Partner shall make a Capital Contribution to the Partnership of the proceeds raised in connection with such issuance as required above, provided that if the proceeds actually received by the General Partner are less than the gross proceeds of such issuance as a result of any underwriter's discount or other expenses paid or incurred in connection with such issuance, then the General Partner shall be deemed to have made a Capital Contribution to the Partnership in the amount of the gross proceeds of such issuance and the Partnership shall be deemed simultaneously to have paid such offering expenses in connection with the required issuance of additional Partnership Units to General Partner for such Capital Contribution pursuant to Section 4.02(a) hereof.

4.03 General Partner Loans. The General Partner or HHTI may from time to time advance funds to the Partnership for any proper Partnership purpose as a loan ("Funding Loan"), provided that any such funds must first be obtained by the General Partner or HHTI from a third party lender, and then all of such funds must be loaned by the General Partner or HHTI to the Partnership on the same terms and conditions, including principal amount, interest rate, repayment schedule and costs and expenses, as shall be applicable with respect to or incurred in connection with such loan with such third party lender. Except for Funding Loans, neither the General Partner nor HHTI shall incur any indebtedness for borrowed funds; provided, however, that upon the affirmative vote of a majority of the directors of HHTI, which majority must include a majority of the Independent Directors, any loan proceeds received by the General Partner or HHTI may be distributed to their respective shareholders or other equity holders if such loan and distribution have been determined by the aforesaid majorities to be necessary to enable HHTI to maintain its status as a REIT under Sections 856- 860 of the Code.

4.04 Capital Accounts. A separate capital account (a "Capital Account") shall be established and maintained for each Partner in accordance with Regulations Section 1.704-1(b)(2)(iv). If (i) a new or existing Partner acquires an additional Partnership Interest in exchange for more than a de minimis Capital Contribution, (ii) the Partnership distributes to a Partner more than a de minimis amount of Partnership property as consideration for a Partnership Interest, or (iii) the Partnership is liquidated within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g), the General Partner shall revalue the property of the Partnership to its fair market value (taking into account Section 7701(g) of the Code) in accordance with Regulations Section 1.704- 1(b)(2)(iv)(f). When the Partnership's property is revalued by the General Partner, the Capital Accounts of the Partners shall be adjusted in accordance with Regulations Sections 1.704-1 (2)(iv)(f) and (g), which generally require such Capital Accounts to be adjusted to reflect the manner in which the unrealized gain or loss inherent in such property (that has not been reflected in the Capital Accounts previously would be allocated among the Partners pursuant to Section 5.01 if there were a taxable

disposition of such property for its fair market value (taking into account Section 7701(g) of the Code) on the date of the revaluation.

4.05 Percentage Interests. If the number of outstanding Partnership Units increases or decreases during a taxable year, each Partner's Percentage Interest shall be adjusted to a percentage equal to the number of Partnership Units held by such Partner divided by the aggregate number of outstanding Partnership Units. If the Partners' Percentage Interests are adjusted pursuant to this Section 4.05, the Profits and Losses for the taxable year in which the adjustment occurs shall be allocated between the part of the year ending on the day when the Partnership's property is revalued by the General Partner and the part of the year beginning on the following day either (i) as if the taxable year had ended on the date of the adjustment or (ii) based on the number of days in each part. The General Partner, in its sole discretion, shall determine which method shall be used to allocate Profits and Losses for the taxable year in which the adjustment occurs. The allocation of Profits and Losses for the earlier part of the year shall be based on the Percentage Interests before adjustment, and the allocation of Profits and Losses for the later part shall be based on the adjusted Percentage Interests.

4.06 No Interest on Contributions. No Partner shall be entitled to interest on its Capital Contribution.

4.07 Return of Capital Contributions. No Partner shall be entitled to withdraw any part of its Capital Contribution or its Capital Account or to receive any distribution from the Company, except as specifically provided in this Agreement. Except as otherwise provided herein, there shall be no obligation to return to any Partner or withdrawn Partner any part of such Partner's Capital Contribution for so long as the Partnership continues in existence.

4.08 No Third Party Beneficiary. No creditor or other third party having dealings with the Partnership shall have the right to enforce the right or obligation of any Partner to make Capital Contributions or loans or to pursue any other right or remedy hereunder or at law or in equity, it being understood and agreed that the provisions of this Agreement shall be solely for the benefit of, and may be enforced solely by, the parties hereto and their respective successors and assigns. None of the rights or obligations of the Partners herein set forth to make Capital Contributions or loans to the Partnership shall be deemed an asset of the Partnership for any purpose by any creditor or other third party, nor may such rights or obligations be sold, transferred or assigned by the Partnership or pledged or encumbered by the Partnership to secure any debt or other obligation of the Partnership or of any of the Partners. In addition, it is the intent of the parties hereto that no distribution to any Limited Partner shall be deemed a return of money or other property in violation of the Act. However, if any court of competent jurisdiction holds that, notwithstanding the provisions of this Agreement, any Limited Partner is obligated to return such money or property, such obligation shall be the obligation of such Limited Partner and not of the General Partner. Without limiting the generality of the foregoing, a deficit Capital Account of a Partner shall not be deemed to be a liability of such Partner nor an asset or property of the Partnership.

4.09 Loans from Limited Partners. If a Limited Partner guarantying any debt that is secured by Property is required by the related lender to pay all or part of such debt, the amount paid toward such debt by such Limited Partner shall be deemed a loan to the Partnership secured by the assets of the Partnership only and not those of the General Partner and shall be repaid in full, without interest, by the Partnership prior to it making any distributions of cash pursuant to Sections 5.02 or 5.06.

ARTICLE V
PROFITS AND LOSSES; DISTRIBUTIONS

5.01 Allocation of Profit and Loss.

(a) General. Except as otherwise provided in this Section 5.01, Profit and Loss of the Partnership for each fiscal year of the Partnership shall be allocated among the Partners in accordance with their respective Percentage Interests.

(b) Minimum Gain Chargeback. Notwithstanding any provision to the contrary, (i) any expense of the Partnership that is a "non-recourse deduction" within the meaning of Regulations Section 1.704-2(b)(1) shall be allocated in accordance with the Partners' respective Percentage Interests, (ii) any expense of the Partnership that is a "partner non-recourse deduction" within the meaning of Regulations Section 1.704-2(i)(2) shall be allocated in accordance with Regulations Section 1.704-2(i)(1), (iii) if there is a net decrease in Partnership Minimum Gain within the meaning of Regulations Section 1.704-2(f)(1) for any Partnership taxable year, items of gain and income shall be allocated among the Partners in accordance with Regulations Section 1.704-2(f) and the ordering rules contained in

Regulations Section 1.704-2(j), and (iv) if there is a net decrease in Partner Non-recourse Debt Minimum Gain within the meaning of Regulations Section 1.704-2(i)(4) for any Partnership taxable year, items of gain and income shall be allocated among the Partners in accordance with Regulations Section 1.704-2(i)(4) and the ordering rules contained in Regulations Section 1.704-2(j). A Partner's "interest in partnership profits" for purposes of determining its share of the non-recourse liabilities of the Partnership within the meaning of Regulations Section 1.752-3(a)(3) shall be such Partner's Percentage Interest.

(c) Qualified Income Offset. If a Limited Partner receives in any taxable year an adjustment, allocation, or distribution described in subparagraphs (4), (5), or (6) of Regulations Section 1.704-1(b)(2)(ii)(d) that causes or increases a negative balance in such Partner's Capital Account that exceeds the sum of such Partner's shares of Partnership Minimum Gain and Partner Non-recourse Debt Minimum Gain, as determined in accordance with Regulations Sections 1.704-2(g) and 1.704-2(i), such Partner shall be allocated specially for such taxable year (and, if necessary, later taxable years) items of income and gain in an amount and manner sufficient to eliminate such negative Capital Account balance as quickly as possible as provided in Regulations Section 1.704- 1(b)(2)(ii)(d). After the occurrence of an allocation of income or gain to a Limited Partner in accordance with this Section 5.01(c), to the extent permitted by Regulations Section 1.704-1(b), items of expense or loss shall be allocated to such Partner in an amount necessary to offset the income or gain previously allocated to such Partner under this Section 5.01(c).

(d) Capital Account Deficits. Loss shall not be allocated to a Limited Partner to the extent that such allocation would cause a deficit in such Partner's Capital Account (after reduction to reflect the items described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6)) to exceed the sum of such Partner's shares of Partnership Minimum Gain and Partner Non-recourse Debt Minimum Gain. Any Loss in excess of that limitation shall be allocated to the General Partner. After the occurrence of an allocation of Loss to the General Partner in accordance with this Section 5.01(d), to the extent permitted by Regulations Section 1.704-1(b), Profit shall be allocated to such Partner in an amount necessary to offset the Loss previously allocated to such Partner under this Section 5.01(d).

(e) Allocations Between Transferor and Transferee. If a Partner transfers any part or all of its Partnership Interest, and the transferee is admitted as a substitute Partner as provided herein, the distributive shares of the various items of Profit and Loss allocable among the Partners during such fiscal year of the Partnership shall be allocated between the transferor and the substitute Partner either (i) as if the Partnership's fiscal year had ended on the date of the transfer, or (ii) based on the number of days of such fiscal year that each was a Partner without regard to the results of Partnership activities in the respective portions of such fiscal year in which the transferor and the transferee were Partners. The General Partner, in its sole discretion, shall determine which method shall be used to allocate the distributive shares of the various items of Profit and Loss between the transferor and the substitute Partner.

(f) Definition of Profit and Loss. "Profit" and "Loss" and any items of income, gain, expense, or loss referred to in this Agreement shall be determined in accordance with federal income tax accounting principles, as modified by Regulations Section 1.704-1(b)(2)(iv), except that Profit and Loss shall not include items of income, gain and expense that are specially allocated pursuant to Section 5.01(b), 5.01(c), 5.01(d), 5.01(g) or 5.01(h). All allocations of income, Profit, gain, Loss, and expense (and all items contained therein) for federal income tax purposes shall be identical to all allocations of such items set forth in this Section 5.01, except as otherwise required by Section 704(c) of the Code and Regulations Section 1.704-1(b)(4).

(g) Preferred Unit Distribution Allocation. Prior to any allocation set forth in Section 5.01(a) above, holders of Preferred Units shall be allocated gross income in an amount equal to the cash distributed to the holder of the Preferred Units during the year in which such cash distribution is declared and the Partnership Record Date occurs, even though cash may actually be distributed in a subsequent year.

(h) Capital Transaction Allocation. All income or gains from Capital Transactions, including Capital Transactions in connection with the liquidation of the Partnership, shall be allocated in the following order and priority:

(i) First, to the holders of Preferred Units until each such holder's Capital Account balance (before taking into account the distribution of the net proceeds from the Capital Transaction, but after taking into account the allocations pursuant to Sections 5.01(a) through 5.01(g)) equals the priority liquidating distribution of such holder, plus the amount of any accrued but unpaid priority distributions;

(ii) Second, to the holders of Common Units until each such holder's Capital Account balance (before taking into account the distribution of the net proceeds from the Capital Transaction, but after taking into account the allocations pursuant to Sections 5.01(a) through 5.01(g)) equals the largest priority liquidating distribution per Unit of all Preferred Unit holders;

(iii) Thereafter, to the Partners, including both Common Unit holders and Preferred Unit holders, on an equal per Unit basis.

5.02 Distribution of Cash.

(a) The General Partner shall distribute cash on a quarterly (or, at the election of the General Partner, more frequent) basis, in an amount determined by the General Partner in its sole discretion, to the Partners who are Partners on the Partnership Record Date with respect to such quarter (or other distribution period) pro rata in accordance with their respective Percentage Interests on the Partnership Record Date; provided, however, with respect to Preferred Units, the terms of cash distributions shall be set forth in Exhibit C describing the terms of such Preferred Units.

(b) In no event may a Partner receive a distribution of cash with respect to a Partnership Unit if such Partner is entitled to receive a dividend with respect to a REIT Share for which all or part of such Partnership Unit has been or will be exchanged. If a new or existing Partner acquires an additional Partnership Interest in exchange for a Capital Contribution on any date other than a Partnership Record Date, the cash distribution attributable to such additional Partnership Interest for the Partnership Record Date following the issuance of such additional Partnership Interests shall be reduced in the proportion that the number of days that such

additional Partnership Interest is held by such Partner bears to the number of days between such Partnership Record Date and the immediately preceding Partnership Record Date.

(c) Notwithstanding any other provision of this Agreement, the General Partner is authorized to take an action that it determines to be necessary or appropriate to cause the Partnership to comply with any withholding requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. If the Partnership is required to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to a Partner or its assignee (including by reason of Section 1446 of the Code) and if the amount to be distributed to the Partner (the "Distributable Amount") equals or exceeds the amount required to be withheld by the Partnership (the "Withheld Amount"), the Withheld Amount shall be treated as a distribution of cash to such Partner. If, however, the Distributable Amount is less than the Withheld Amount, no amount shall be distributed to the Partner, the Distributable Amounts shall be treated as a distribution of cash to such Partner, and the excess of the Withheld Amount over the Distributable Amount shall be treated as a loan (a "Partnership Loan") from the Partnership to the Partner on the day the Partnership pays over such excess to a taxing authority. A Partnership Loan may be repaid, at the election of the General Partner in its sole and absolute discretion, either (i) through withholding by the Partnership with respect to subsequent distributions to the applicable Partner or assignee, or (ii) at any time more than twelve (12) months after a Partnership Loan arises, by cancellation of Partnership Units with a value equal to the unpaid balance of the Partnership Loan (including accrued interest). Any amounts treated as a Partnership Loan pursuant to this Section 5.02(c) shall bear interest at the lesser of (i) the base rate on corporate loans at large United States money center commercial banks, as published from time to time in The Wall Street Journal (or an equivalent successor publication), or (ii) the maximum lawful rate of interest on such obligation, such interest to accrue from the date the Partnership is deemed to extend the loan until such loan is repaid in full.

5.03 REIT Distribution Requirements. The General Partner shall use its reasonable efforts to cause the Partnership to distribute amounts sufficient to enable the General Partner (i) to meet its distribution requirement for qualification as a REIT as set forth in Section 857(a)(1) of the Code and (ii) to avoid any federal income or excise tax liability imposed by the Code; provided, however, that the Limited Partners shall receive their pro rata share of all distributions.

5.04 No Right to Distributions in Kind. No Partner shall be entitled to demand property other than cash in connection with any distributions by the Partnership.

5.05 Limitations on Return of Capital Contributions. Notwithstanding any of the provisions of this Article V, no Partner shall have the right to receive and the General Partner shall not have the right to make, a distribution which includes a return of all or part of a Partner's Capital Contributions, unless after giving effect to the return of a Capital Contribution, the sum of all Partnership liabilities, other than the liabilities to a Partner for the return of his Capital Contribution, does not exceed the fair market value of the Partnership's assets.

5.06 Distributions Upon Liquidation.

(a) Upon liquidation of the Partnership, after payment of, or adequate provision for, debts and obligations of the Partnership, including any Partner loans, any remaining assets of the Partnership shall be distributed to all Partners with positive Capital Accounts in accordance with their respective positive Capital Account balances. For purposes of the preceding sentence, the Capital Account of each Partner shall be determined after all adjustments made in accordance with Sections 5.01 and 5.02, including, without limitation, Section 5.01(h), resulting from Partnership operations and from all sales and dispositions of all or any part of the Partnership's assets. Any distributions pursuant to this Section 5.06 shall be made by the end of the Partnership's taxable year in which the liquidation occurs (or, if later, within 90 days after the date of the liquidation). To the extent deemed advisable by the General Partner, appropriate arrangements (including the use of a liquidating trust) may be made to assure that adequate funds are available to pay any contingent debts or obligations.

(b) If the General Partner has a negative balance in its Capital Account following a liquidation of the Partnership, as determined after taking into account all Capital Account Adjustments in accordance with Sections 5.01 and 5.02 resulting from Partnership operations and from all sales and dispositions of all or any part of the Partnership's assets, the General Partner shall contribute to the Partnership an amount of cash equal to the negative balance in its Capital Account and such cash shall be paid or distributed by the Partnership to creditors, if any, and then to the Limited Partners in accordance with Section 5.06(a). Such contribution by the General Partner shall be made by the end of the Partnership's taxable year in which the liquidation occurs (or, if later, within 90 days after the date of the liquidation).

5.07 Substantial Economic Effect. It is the intent of the Partners that the allocations of Profit and Loss under the Agreement have substantial economic effect (or be consistent with the Partners' interests in the Partnership in the case of the allocation of losses attributable to non-recourse debt) within the meaning of Section 704(b) of the Code as interpreted by the Regulations promulgated pursuant thereto. Article V and other relevant provisions of this Agreement shall be interpreted in a manner consistent with such intent.

ARTICLE VI
RIGHTS, OBLIGATIONS AND POWERS OF THE GENERAL PARTNER

6.01 Management of the Partnership.

(a) Except as otherwise expressly provided in this Agreement, the General Partner shall have full, complete and exclusive discretion to manage and control the business of the Partnership for the purposes herein stated, and shall make all decisions affecting the business and assets of the Partnership. Subject to the restrictions specifically contained in this Agreement, the powers of the General Partner shall include, without limitation, the authority to take the following actions on behalf of the Partnership:

(i) to acquire, purchase, own, lease and dispose of any real property and any other property or assets that the General Partner determines are necessary or appropriate or in the best interests of the business of the Partnership;

(ii) to construct buildings and make other improvements on the properties owned or leased by the Partnership;

(iii) to borrow money for or lend money by the Partnership, issue evidences of indebtedness in connection therewith, refinance, guarantee, increase the amount of, modify, amend or change the terms of, or extend the time for the payment of, any indebtedness or obligation to the Partnership, and secure such indebtedness by mortgage, deed of trust, pledge or other lien on the Partnership's assets;

(iv) to pay, either directly or by reimbursement, for all operating costs and general administrative expenses of the General Partner or the Partnership, to third parties or to the General Partner as set forth in this Agreement;

(v) to lease all or any portion of any of the Partnership's assets, whether or not the terms of such leases extend beyond the termination date of the Partnership and whether or not any portion of the Partnership's assets so leased are to be occupied by the lessee, or, in turn, subleased in whole or in part to others, for such consideration and on such terms as the General Partner may determine;

(vi) to prosecute, defend, arbitrate, or compromise any and all claims or liabilities in favor of or against the Partnership, on such terms and in such manner as the General Partner may reasonably determine, and similarly to prosecute, settle or defend litigation with respect to the Partners, the Partnership, or the Partnership's assets; provided, however, that the General Partner may not, without the consent of all of the Partners, confess a judgment against the Partnership;

(vii) to file applications, communicate, and otherwise deal with any and all governmental agencies having jurisdiction over, or in any way affecting, the Partnership's assets or any other aspect of the Partnership business;

(viii) to make or revoke any election permitted or required of the Partnership by any taxing authority;

(ix) to maintain such insurance coverage for public liability, fire and casualty, and any and all other insurance for the protection of the Partnership, for the conservation of Partnership assets, or for any other purpose convenient or beneficial to the Partnership, in such amounts and such types, as it shall determine from time to time;

(x) to determine whether or not to apply any insurance proceeds for any property to the restoration of such property or to distribute the same;

(xi) to retain legal counsel, accountants, consultants, real estate brokers, and such other persons, as the General Partner may deem necessary or appropriate in connection with the Partnership business and to pay therefor such reasonable remuneration as the General Partner may deem reasonable and proper;

(xii) to retain other services of any kind or nature in connection with the Partnership business, and to pay therefor such remuneration as the General Partner may deem reasonable and proper;

(xiii) to negotiate and conclude agreements on behalf of the Partnership with respect to any of the rights, powers and authority conferred upon the General Partner;

(xiv) to maintain accurate accounting records and to file promptly all federal, state and local income tax returns on behalf of the Partnership;

(xv) to distribute Partnership cash or other Partnership assets in accordance with this Agreement;

(xvi) to form or acquire an interest in, and contribute property to, any further limited or general partnerships, joint ventures or other relationships that it deems desirable (including, without limitation, the acquisition of interests in, and the contributions of property to, its Subsidiaries and any other Person in which it has an equity interest from time to time);

(xvii) to establish Partnership reserves for working capital, capital expenditures, contingent liabilities, or any other valid Partnership purpose; and

(xviii) to take such other action, execute, acknowledge, swear to or deliver such other documents and instruments, and perform any and all other acts the General Partner deems necessary or appropriate for the formation, continuation and conduct of the business and affairs of the Partnership and to possess and enjoy all of the rights and powers of a general partner as provided by the Act.

(b) Except as otherwise provided herein, to the extent the duties of the General Partner require expenditures of funds to be paid to third parties, the General Partner shall not have any obligations hereunder except to the extent that Partnership funds are reasonably available to it for the performance of such duties, and nothing herein contained shall be deemed to authorize or require the General Partner, in its capacity as such, to expend its individual funds for payment to third parties or to undertake any individual liability or obligation on behalf of the Partnership.

6.02 Delegation of Authority. The General Partner may delegate any or all of its powers, rights and obligations hereunder, and may appoint, employ, contract or otherwise deal with any Person for the transaction of the business of the Partnership, which Person may, under supervision of the General Partner, perform any acts or services for the Partnership as the General Partner may approve.

6.03 Indemnification and Exculpation of Indemnitees.

(a) The Partnership shall indemnify an Indemnitee from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including reasonable legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Partnership as set forth in this Agreement in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, unless it is established that: (i) the act or omission of the Indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the Indemnitee actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that the Indemnitee did not meet the requisite standard of conduct set forth in this Section 6.03(a). The termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the Indemnitee acted in a manner contrary to that specified in this Section 6.03(a). Any indemnification pursuant to this Section 6.03 shall be made only out of the assets of the Partnership.

(b) The Partnership may reimburse an Indemnitee for reasonable expenses incurred by an Indemnitee who is a party to a proceeding in advance of the final disposition of the proceeding upon receipt by the Partnership of (i) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Partnership as authorized in this Section 6.03 has been met, and (ii) a written undertaking by or on behalf of the Indemnitee to repay the amount if it shall ultimately be determined that the standard of conduct has not yet been met.

(c) The indemnification provided by this Section 6.03 shall be in addition to any other rights to which an Indemnitee or any other Person may be entitled under any agreement, pursuant to any vote of the Partners, as a matter of law or otherwise, and shall continue as to an Indemnitee who has ceased to serve in such capacity.

(d) The Partnership may purchase and maintain insurance, on behalf of the Indemnitees and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expenses that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 6.03, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law

shall constitute fines within the meaning of this Section 6.03; and actions taken or omitted by the Indemnitee with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the Partnership.

(f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 6.03 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 6.03 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) Any amendment, modification or repeal of this Section 6.03 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the General Partner's or HHTI's liability to the Partnership and the Limited Partners under this Section 6.03 as in effect immediately prior to such amendment, modification or repeal with respect to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when claims relating to such matters may arise or be asserted.

6.04 Liability of the General Partner.

(a) Notwithstanding anything to the contrary set forth in this Agreement, the General Partner shall not be liable for monetary damages to the Partnership or any Partners for losses sustained or liabilities incurred as a result of errors in judgment or of any act or omission if the General Partner acted in good faith.

(b) The Limited Partners expressly acknowledge that the General Partner is acting on behalf of the Partnership and the General Partner's shareholders collectively, that the General Partner is under no obligation to consider the separate interests of the Limited Partners (including, without limitation, the tax consequences to Limited Partners) in deciding whether to cause the Partnership to take (or decline to take) any actions, and that the General Partner shall not be liable for monetary damages for losses sustained, liabilities incurred, or benefits not derived by Limited Partners in connection with such decisions, provided that the General Partner has acted in good faith.

(c) Subject to its obligations and duties as General Partner set forth in Section 6.01 hereof, the General Partner may exercise any of the powers granted to it under this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents. The General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by it in good faith.

(d) Notwithstanding any other provisions of this Agreement or the Act, any action of the General Partner on behalf of the Partnership or any decision of the General Partner to refrain from acting on behalf of the Partnership, undertaken in the good faith belief that such action or omission is necessary or advisable in order (i) to protect the ability of HHTI to continue to qualify as a REIT, or (ii) to prevent HHTI from incurring any taxes under Section 857, Section 4981, or any other provision of the Code, is expressly authorized under this Agreement and is deemed approved by all of the Limited Partners.

(e) Any amendment, modification or repeal of this Section 6.04 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the General Partner's liability to the Partnership and the Limited Partners under this Section 6.04 as in effect immediately prior to such amendment, modification or repeal with respect to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when claims relating to such matters may arise or be asserted.

6.05 Expenditures by Partnership. The General Partner is hereby authorized to pay compensation for accounting, administrative, legal, technical, management and other services rendered to the Partnership. All of the aforesaid expenditures (including Administrative Expenses) shall be made on behalf of the Partnership, and the General Partner and HHTI shall be entitled to reimbursement by the Partnership for any expenditure (including Administrative Expenses) incurred by it on behalf of the Partnership which shall be made other than out of the funds of the Partnership. The Partnership shall also assume, and pay when due, all Administrative Expenses.

6.06 Outside Activities; Redemption/Tender Offer of REIT Shares.

(a) Subject to Section 6.09 hereof, the Articles of Incorporation and any agreements entered into by the General Partner or its Affiliates with the Partnership or a Subsidiary, any officer, director, employee, agent, Affiliate or shareholder of the General Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities substantially similar or identical to those of the Partnership. Neither the Partnership nor any of the Limited Partners shall have any rights by virtue of this Agreement in any such business ventures, interest or activities. None of the

Limited Partners nor any other Person shall have any rights by virtue of this Agreement or the partnership relationship established hereby in any such business ventures, interests or activities, and the General Partner shall have no obligation pursuant to this Agreement to offer any interest in any such business ventures, interests and activities to the Partnership or any Limited Partner, even if such opportunity is of a character which, if presented to the Partnership or any Limited Partner, could be taken by such Person.

(b) In the event HHTI redeems any REIT Shares, then the General Partner shall cause the Partnership to purchase from it a number of Partnership Units as determined based on the application of the Conversion Factor on the same terms that HHTI redeemed such REIT Shares. Moreover, if HHTI makes a cash tender offer or other offer to acquire REIT Shares, then the General Partner shall cause the Partnership to make a corresponding offer to the General Partner to acquire an equal number of Partnership Units held by the General Partner. In the event any REIT Shares are redeemed by HHTI pursuant to such offer, the Partnership shall redeem an equivalent number of the General Partner's Partnership Units for an equivalent purchase price based on the application of the Conversion Factor.

6.07 Employment or Retention of Affiliates.

(a) Any Affiliate of the General Partner may be employed or retained by the Partnership and may otherwise deal with the Partnership (whether as a buyer, lessor, lessee, manager, furnisher of goods or services, broker, agent, lender or otherwise) and may receive from the Partnership any compensation, price, or other payment therefor that is fair and reasonable for the services provided.

(b) The Partnership may lend or contribute to its Subsidiaries or other Persons in which it has an equity investment, and such Persons may borrow funds from the Partnership, on terms and conditions established in the sole and absolute discretion of the General Partner. The foregoing authority shall not create any right or benefit in favor of any Subsidiary or any other Person.

(c) The Partnership may transfer assets to joint ventures, other partnerships, corporations or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as the General Partner deems are consistent with this Agreement and applicable law.

(d) Except as expressly permitted by this Agreement, neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are on terms that are fair and reasonable to the Partnership.

6.08 General Partner Participation. The General Partner and HHTI agree that all business activities of the General Partner and HHTI, including activities pertaining to the acquisition, development and/or ownership of hotels or other property, shall be conducted through the Partnership; provided, however, that the General Partner and HHTI are each allowed to make a direct acquisition, but if and only if, such acquisition is made in connection with the issuance of New Securities, which direct acquisition and issuance have been approved and determined to be in the best interests of the General Partner and HHTI and the Partnership by a majority of the Independent Directors. The General Partner and HHTI also agree that all borrowings shall constitute Funding Loans, subject to the exception set forth in Section 4.03 hereof.

ARTICLE VII
CHANGES IN GENERAL PARTNER

7.01 Transfer of the General Partner's Partnership Interest.

(a) The General Partner may not transfer any of its General Partnership Interest or Limited Partnership Interests or withdraw as General Partner or HHTI may not transfer its interest in the General Partner or withdraw from the General Partner except as provided in Section 7.01(c) or in connection with a transaction described in Section 7.01(d).

(b) The General Partner agrees that it will at all times own at least a 20% Percentage Interest in the form of a General Partner Interest.

(c) Except as otherwise provided in Section 6.06(b) or Section 7.01(d) hereof, the General Partner and HHTI shall not engage in any merger, consolidation or other combination with or into another Person or sale of all or substantially all of its assets, or any reclassification, or any recapitalization or change of outstanding REIT Shares (other than a change in par value, or from par value to no par value, or as a result of a subdivision or combination of REIT Shares) (a "Transaction"), unless (i) the Transaction also includes a merger of the Partnership or sale of substantially all of the assets of the Partnership as a result of which all Limited Partners will receive for each Partnership Unit an amount of cash, securities, or other property equal to the product of the Conversion Factor and the greatest amount of cash, securities other property paid in the Transaction to a holder of one REIT Share in consideration of one REIT Share, provided that if, in connection with the Transaction, a purchase, tender or exchange offer ("Offer") shall have been made to and accepted by the holders of more than fifty percent (50%) of the outstanding REIT Shares, each holder of Partnership Units shall be given the option to exchange its Partnership Units for the greatest amount of cash, securities, or other property which a Limited Partner would have received had it (A) exercised its Redemption Right and (B) sold, tendered or exchanged pursuant to the Offer the REIT Shares received upon exercise of the Redemption Right immediately prior to the expiration of the Offer.

(d) Notwithstanding Section 7.01(c), HHTI may merge with or into or consolidate with another entity if immediately after such merger or consolidation (i) substantially all of the assets of the successor or surviving entity (the "Surviving Entity"), other than Partnership Units held by the General Partner or HHTI's interest in the General Partner, respectively, are contributed, directly or indirectly, to the Partnership as a Capital Contribution in exchange for Partnership Units with a fair market value equal to the value of the assets so contributed as determined by the Surviving Entity in good faith and (ii) the Surviving Entity expressly agrees to assume all obligations of HHTI hereunder. Upon such contribution and assumption, the Surviving Entity shall have the right and duty to amend this Agreement as set forth in this Section 7.01(d). The Surviving Entity shall in good faith arrive at a new method for the calculation of the Cash Amount, the REIT Shares Amount and Conversion Factor for a Partnership Unit after any such merger or consolidation so as to approximate the existing method for such calculation as closely as reasonably possible. Such calculation shall take into account, among other things, the kind and amount of securities, cash and other property that was receivable upon such merger or consolidation by a holder of REIT Shares or options, warrants or other rights relating thereto, and to which a holder of Partnership Units could have acquired had such Partnership Units been exchanged immediately prior to such merger or consolidation. Such amendment to this Agreement shall provide for adjustment to such method of calculation, which shall be as nearly equivalent as may be practicable to the adjustments provided for with respect to the Conversion Factor. The Surviving Entity also shall in good faith modify the definition of REIT Shares and make such amendments to Section 8.05 hereof so as to approximate the existing rights and obligations set forth in Section 8.05 as closely as reasonably possible. The above provisions of this Section 7.01(d) shall similarly apply to successive mergers or consolidations permitted hereunder.

(e) Notwithstanding Section 4.02(a)(ii), Section 6.08, and Section 7.01(c) and (d), the Partners acknowledge and agree that the ownership interests in E&P REIT Trust and E&P Financing Limited Partnership acquired in the Merger with Supertel Hospitality, Inc. shall be held directly by HHTI and shall not be contributed to the Partnership.

7.02 Admission of a Substitute or Successor General Partner. A Person shall be admitted as a substitute or successor General Partner of the Partnership only if the following terms and conditions are satisfied:

(a) a majority-in-interest of the Limited Partners (other than the General Partner) shall have consented in writing to the admission of the substitute or successor General Partner, which consent may be withheld in the sole discretion of such Limited Partners;

(b) the Person to be admitted as a substitute or additional General Partner shall have accepted and agreed to be bound by all terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a

General Partner, and a certificate evidencing the admission of such Person as a General Partner shall have been filed for recordation and all other actions required by Section 2.05 hereof in connection with such admission shall have been performed;

(c) if the Person to be admitted as a substitute or additional General Partner is a corporation or a partnership it shall have provided the Partnership with evidence satisfactory to counsel for the Partnership of such Person's authority to become a General Partner and to be bound by the terms and provisions of this Agreement; and

(d) counsel for the Partnership shall have rendered an opinion (relying on such opinions from other counsel and the state or any other jurisdiction as may be necessary) that the admission of the person to be admitted as a substitute or additional General Partner is in conformity with the Act, that none of the actions taken in connection with the admission of such Person as a substitute or additional General Partner will cause (i) the Partnership to be classified other than as a partnership for federal income tax purposes, or (ii) the loss of any Limited Partner's limited liability.

7.03 Effect of Bankruptcy, Withdrawal, Death or Dissolution of a General Partner.

(a) Upon the occurrence of an Event of Bankruptcy as to a General Partner (and its removal pursuant to Section 7.04(a) hereof) or the withdrawal, removal or dissolution of a General Partner (except that, if a General Partner is on the date of such occurrence a partnership, the withdrawal, death, dissolution, Event of Bankruptcy as to, or removal of a partner in, such partnership shall be deemed not to be a dissolution of such General Partner if the business of such General Partner is continued by the remaining partner or partners), the Partnership shall be dissolved and terminated unless the Partnership is continued pursuant to Section 7.03(b) hereof.

(b) Following the occurrence of an Event of Bankruptcy as to a General Partner (and its removal pursuant to Section 7.04(a) hereof) or the withdrawal, removal or dissolution of a General Partner (except that, if a General Partner is on the date of such occurrence a partnership, the withdrawal, death, dissolution, Event of Bankruptcy as to, or removal of a partner in, such partnership shall be deemed not to be a dissolution of such General Partner if the business of such General Partner is continued by the remaining partner or partners), the Limited Partners, within 90 days after such occurrence, may elect to reconstitute the Partnership and continue the business of the Partnership for the balance of the term specified in Section 2.04 hereof by selecting, subject to Section 7.02 hereof and any other provisions of this Agreement, a substitute General Partner by unanimous consent of the Limited Partners. If the Limited Partners elect to reconstitute the Partnership and admit a substitute General Partner, the relationship with the Partners and of any Person who has acquired an interest of a Partner in the Partnership shall be governed by this Agreement.

7.04 Removal of a General Partner.

(a) Upon the occurrence of an Event of Bankruptcy as to, or the dissolution of, a General Partner, such General Partner shall be deemed to be removed automatically; provided, however, that if a General Partner is on the date of such occurrence a partnership, the withdrawal, death, dissolution, Event of Bankruptcy as to or removal of a partner in such partnership shall be deemed not to be a dissolution of the General Partner if the business of such General Partner is continued by the remaining partner or partners.

(b) if a General Partner has been removed pursuant to this Section 7.04 and the Partnership is continued pursuant to Section 7.03 hereof, such General Partner shall promptly transfer and assign its General Partnership Interest in the partnership (i) to the substitute General Partner approved by a majority-in-interest of the Limited Partners (excluding the General Partner) in accordance with Section 7.03(b) hereof and otherwise admitted to the Partnership in accordance with Section 7.02 hereof. At the time of assignment, the removed General Partner shall be entitled to receive from the substitute General Partner the fair market value of the General Partnership Interest of such removed General Partner as reduced by any damages caused to the Partnership by such General Partner. Such fair market value shall be determined by an appraiser mutually agreed upon by the General Partner and a majority-in-interest of the Limited Partners (excluding the General Partner) within 10 days following the removal of the General Partner. In the event that the parties are unable to agree upon an appraiser, the General Partner and a majority-in-interest of the Limited Partners (excluding the General Partner) each shall select an appraiser. Each such appraiser shall complete an appraisal of the fair market value of the General Partner's General Partnership Interest within 30 days of the General Partner's removal, and the fair market value of the General Partner's General Partnership Interest shall be the average of the two appraisals; provided however, that if the higher appraisal exceeds the lower appraisal by more than 20% of the amount of the lower appraisal, the two appraisers, no later than 40 days after the removal of the General Partner, shall select a third appraiser who shall complete an appraisal of the fair market value of the General Partner's General Partnership Interest no later than 60 days after the removal of the General Partner. In such case, the fair market value of the General Partner's General Partnership Interest shall be the average of the two appraisals closest in value.

(c) The General Partnership Interest of a removed General Partner, during the time after default until transfer under Section 7.04(b), shall be converted to that of a special Limited Partner; provided, however, such removed General Partner shall not have any rights to participate in the management and affairs of the Partnership, and shall not be entitled to any portion of the income, expense, profit, gain or loss allocations or cash distributions allocable or payable as the case may be, to the Limited Partners. Instead, such removed General Partner shall receive and be entitled only to retain distributions or allocations of such items which it would have been entitled to receive in its capacity as General Partner, until the transfer is effective pursuant to Section 7.04(b).

(d) All Partners shall have given and hereby do give such consents, shall take such actions and shall execute such documents as shall be legally necessary and sufficient to effect all the foregoing provisions of this Section.

ARTICLE VIII
RIGHTS AND OBLIGATIONS OF THE LIMITED PARTNERS

8.01 Management of the Partnership. The Limited Partners shall not participate in the management or control of Partnership business nor shall they transact any business for the Partnership, nor shall they have the power to sign for or bind the Partnership, such powers being vested solely and exclusively in the General Partner.

8.02 Power of Attorney. Each Limited Partner hereby irrevocably appoints the General Partner his true and lawful attorney-in-fact, who may act for each Limited Partner and in his name, place and stead, and for his use and benefit, to sign, acknowledge, swear to, deliver, file and record, at the appropriate public offices, any and all documents, certificates, and instruments as may be deemed necessary or desirable by the General Partner to carry out fully the provisions of this Agreement and the Act in accordance with their terms, which power of attorney is coupled with an interest and shall survive the death, dissolution or legal incapacity of the Limited Partner, or the transfer by the Limited Partner of any part or all of his Interest in the Partnership. This power of attorney shall be limited to documents, certificates and instruments the contents of which shall have no adverse economic impact on the Limited Partners.

8.03 Limitation on Liability of Limited Partners. No Limited Partner shall be liable for any debts, liabilities, contracts or obligations of the Partnership. A Limited Partner shall be liable to the Partnership only to make payments of his Capital Contribution, if any, as and when due hereunder. After his Capital Contribution is fully paid, no Limited Partner shall, except as otherwise required by the Act, be required to make any further Capital Contribution or other payments or lend any funds to the Partnership.

8.04 Ownership by Limited Partner of Corporate General Partner or Affiliate. No Limited Partner shall at any time, either directly or indirectly, own any stock or other interest in the General Partner or in any Affiliate thereof, if such ownership by itself or in conjunction with other stock or other interests owned by other Limited Partners would, in the opinion of counsel for the Partnership, jeopardize the classification of the Partnership as a partnership for federal income tax purposes. The General Partner shall be entitled to make such reasonable inquiry of the Limited Partners as is required to establish compliance by the Limited Partners with the provisions of this Section.

8.05 Redemption Right.

(a) Subject to Sections 8.05(b), 8.05(c) and 8.05(e), and the provisions of any agreement between the Partnership and any Limited Partner with respect to Common Units held by such Limited Partner, each Limited Partner shall have the right (the "Redemption Right"), on or after the first anniversary of the issuance by the Partnership of any Common Units (the "Redemption Date"), to require the Partnership to redeem on a Specified Redemption Date all or a portion of the applicable Common Units held by such Limited Partner at a redemption price equal to and in the form of the Cash Amount to be paid by the Partnership. The Redemption Right shall be exercised pursuant to a Notice of Redemption delivered to the Partnership (with a copy to the General Partner and HHTI) by the Limited Partner who is exercising the Redemption Right (the "Redeeming Partner"); provided, however, that the Partnership shall not be obligated to satisfy such Redemption Right if the General Partner or HHTI elects to purchase the Common Units described in the Notice of Redemption pursuant to Section 8.05(b). A Limited Partner may not exercise the Redemption Right for less than one thousand (1,000) Common Units or, if such Limited Partner holds less than one thousand (1,000) Common Units, all of the Common Units held by such Partner.

(b) Notwithstanding the provisions of Section 8.05(a), a Limited Partner that exercises the Redemption Right shall be deemed to have offered to sell the Common Units described in the Notice of Redemption to the General Partner and HHTI, and the General Partner or HHTI may, in its sole and absolute discretion, assume directly and satisfy a Redemption Right within the maximum limits provided in Section 8.05(c) and minimum limits provided in Section 8.05(a) by paying to the Redeeming Partner the Redemption Amount on the Specified Redemption Date, whereupon the General Partner or HHTI, as applicable, shall acquire the Common Units offered for redemption by the Redeeming Partner and shall be treated for all purposes of this Agreement as the owner of such Common Units. If the General Partner or HHTI shall elect to exercise its right to purchase Common Units under this Section 8.05(b) with respect to a Notice of Redemption, it shall so notify the Redeeming Partner within five (5) business days after the receipt by the General Partner and HHTI of such Notice of Redemption. Such notice shall indicate whether the General Partner or HHTI will pay the Cash Amount or the REIT Shares Amount, which determination shall be made by the General Partner or HHTI in its sole discretion. Unless the General Partner or HHTI (in its sole and absolute discretion) shall exercise its right to purchase Common Units from the Redeeming Partner pursuant to this Section 8.05(b), the General Partner and HHTI shall not have any obligation to the Redeeming Partner or the

Partnership with respect to the Redeeming Partner's exercise of the Redemption Right. In the event the General Partner or HHTI shall exercise its right to satisfy the Redemption Right in the manner described in the first sentence of this Section 8.05(b), the Partnership shall have no obligation to pay any amount to the Redeeming Partner with respect to such Redeeming Partner's exercise of the Redemption Right, and each of the Redeeming Partner, the Partnership, and the General Partner or HHTI, as applicable, shall treat the transaction between the General Partner or HHTI, as applicable, and the Redeeming Partner as a sale of the Redeeming Partner's Common Units to the General Partner or HHTI, as applicable, for federal income tax purposes. Each Redeeming Partner agrees to execute such documents as the General Partner may reasonably require in connection with the issuance of REIT Shares upon exercise of the Redemption Right.

(c) Notwithstanding Sections 8.05(a) and 8.05(b), except as provided in Section 8.05(e), a Limited Partner shall not be entitled to exercise the Redemption Right if the delivery of REIT Shares to such Partner on the Specified Redemption Date by the General Partner or HHTI pursuant to Section 8.05(b) (regardless of whether or not the General Partner or HHTI would in fact exercise its rights under Section 8.05(b)) would (i) result in such Partner or any other person owning, directly or indirectly, REIT Shares in excess of the "Ownership Limit," as defined in the Articles of Incorporation and calculated in accordance therewith, except as provided in the Articles of Incorporation, (ii) result in REIT Shares being owned by fewer than 100 persons (determined without reference to any rules of attribution), except as provided in the Articles of Incorporation, (iii) result in HHTI being "closely held" within the meaning of Section 856(h) of the Code, (iv) cause the General Partner or HHTI to own, directly or constructively, 10% or more of the ownership interests in a tenant of the General Partner's, HHTI's, the Partnership's or the Subsidiary Partnership's real property, within the meaning of Section 856(d)(2)(B) of the Code, or (v) cause the acquisition of REIT Shares by such Partner to be "integrated" with any other distribution of REIT Shares for purposes of complying with the registration provisions of the Securities Act of 1933, as amended. The General Partner or HHTI, in its sole and absolute discretion, may waive the restriction on redemption set forth in this Section 8.05(c); provided, however, that in the event such restriction is waived, the Redeeming Partner shall be paid the Cash Amount. Any Cash Amount to be paid to a redeeming Limited Partner pursuant to Section 8.05(a) or this Section 8.05(c) shall be paid within sixty (60) days after the initial date of receipt by the Partnership, the General Partner and HHTI of the Notice of Redemption relating to the Common Units to be redeemed; provided, however, that such sixty (60) day period may be extended for up to an additional one hundred eighty (180) day period to the extent required for the Partnership, the General Partner and HHTI to obtain financing for the payment of the Cash Amount. Notwithstanding the foregoing, the General Partner, HHTI and the Partnership agree to use their best efforts to cause the closing of the acquisition of redeemed Common Units hereunder to occur as quickly as reasonably possible.

(d) Each certificate, if any, evidencing REIT Shares that may be issued in redemption of Common Units under this Section 8.05 (the "Redemption Shares") shall bear a restrictive legend in substantially the following form:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or any state securities law. No transfer of the Shares represented by this certificate shall be valid or effective unless (A) such transfer is made pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Act"), or (B) the holder of the securities proposed to be transferred shall have delivered to the company either a no-action letter from the Securities and Exchange Commission or an opinion of counsel (who may be an employee of such holder) experienced in securities matters to the effect that such proposed transfer is exempt from the registration requirements of the Act which opinion shall be reasonably satisfactory to the Company."

(e) Notwithstanding any other provision of this Agreement, the General Partner shall place appropriate restrictions on the ability of the Limited Partners to exercise their Redemption Rights as and if deemed necessary to ensure that the partnership does not constitute a "publicly traded partnership" under Section 7704 of the Code.

(f) Notwithstanding any other provisions of this Agreement, the terms of any separate written agreement between the Partnership and a Partner pertaining to redemption rights shall supersede the terms of this Section 8.05.

8.06 Registration.

(a) Shelf Registration. Within two weeks of any Specified Redemption Date, HHTI agrees to file with the Commission a shelf registration statement under Rule 415 of the Securities Act, or any similar rule that may be adopted by the Commission (the "Shelf Registration"), with respect to the issuance and/or the resale of all of the Redemption Shares that are issuable with respect to a redemption for the REIT Shares Amount of the Common Units

which become redeemable on such date. HHTI will use its commercially reasonable best efforts to have the Shelf Registration declared effective under the Securities Act as soon as practicable after such filing and to keep the Shelf Registration continuously effective until the earlier of (i) the date when all of the Redemption Shares registered thereby are sold, or (ii) the date on which all of the holders of Redemption Shares registered thereunder may sell such Redemption Shares without registration under the Securities Act pursuant to Rule 144(k) under the Securities Act or any other applicable provision of the Securities Act. HHTI further agrees to supplement or make amendments to the Shelf Registration, if required by the rules, regulations or instructions applicable to the registration form utilized by HHTI or by the Securities Act or rules and regulations thereunder for the Shelf Registration. Notwithstanding the foregoing, if for any reason the effectiveness of the Shelf Registration is delayed or suspended or ceases to be available for sales of Redemption Shares thereunder, the Shelf Registration period shall be extended by the aggregate number of days of such delays, suspension or unavailability.

(b) Registration and Qualification Procedures. HHTI is required by the provisions of Section 8.06(a) hereof to use its commercially reasonable best efforts to have a Shelf Registration relating to the Redemption Shares declared effective under the Securities Act as soon as practicable after the filing of such Shelf Registration. Accordingly, HHTI, as soon as practical after the filing of such Shelf Registration, shall with respect to the Redemption Shares first eligible for redemption on such date:

(i) prepare and file with the Commission a registration statement, including amendments thereof and supplements relating thereto, with respect to such Redemption Shares;

(ii) use its commercially reasonable best efforts to cause the registration statement to be declared effective by the Commission;

(iii) use its commercially reasonable best efforts to keep the registration statement effective and the related prospectus current throughout the Shelf Registration period; provided, however, that HHTI shall have no obligation to file any amendment or supplement at its own expense or the Partnership's expense more than ninety (90) days after the effective date of the registration statement;

(iv) furnish to each holder of such Redemption Shares such numbers of copies of prospectuses, and supplements or amendments thereto, and such other documents as such holder reasonably requests;

(v) register or qualify such Redemption Shares covered by the registration statement under the securities or blue sky laws of such jurisdictions within the United States, if required, as any holder of the such Redemption Shares shall reasonably request, and do such other reasonable acts and things as may be required of it to enable such holders to consummate the sale or other disposition in such jurisdictions of such Redemption Shares; provided, however, that HHTI shall not be required to (i) qualify as a foreign corporation or consent to a general and unlimited service or process in any jurisdictions in which it would not otherwise be required to be qualified or so consent or (ii) qualify as a dealer in securities; and

(vi) otherwise use its commercially reasonable best efforts to comply with all applicable rules and regulations of the Commission, and make available to its shareholders as soon as reasonably practicable, but not later than sixteen (16) months after the effective date of the Shelf Registration, an earnings statement covering a period of at least twelve (12) months beginning after the effective date of the Shelf Registration, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act.

(c) Allocation of Expenses. The Partnership shall pay all expenses in connection with the Shelf Registration, including without limitation (i) all expenses incident to filing with the National Association of Securities Dealers, Inc., (ii) registration fees, (iii) printing expenses, (iv) accounting and legal fees and expenses, except to the extent holders of Redemption Shares elect to engage accountants or attorneys in addition to the accountants and attorneys engaged by HHTI, (v) accounting expenses incident to or required by any such registration or qualification and (vi) expenses of complying with the securities or blue sky laws of any jurisdictions in connection with such registration or qualification; provided, however, the Partnership shall not be liable for (A) any discounts or commissions to any underwriter or broker attributable to the sale of Redemption Shares, or (B) any fees or expenses incurred by holders of Redemption Shares in connection with such registration which, according to the written instructions of any regulatory authority, the Partnership is not permitted to pay.

(d) Indemnification.

(i) In connection with the Shelf Registration, HHTI and the Partnership agree to indemnify each holder of Redemption Shares within the meaning of Section 15 of the Securities Act, against all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) caused by any untrue, or alleged untrue, statement of a material fact contained in the Shelf Registration, preliminary prospectus or prospectus (as amended or supplemented if HHTI shall have furnished any amendments or supplements thereto) or caused by any omission, or alleged omission, to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses are caused by any untrue

statement, alleged untrue statement, omission or alleged omission based upon information furnished to HHTI by or on behalf of the holder of Redemption Shares expressly for use therein. HHTI and each officer, director and controlling person of HHTI shall be indemnified by each holder of Redemption Shares covered by the Shelf Registration for all such losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) caused by any such untrue, or alleged untrue, statement or any such omission, or alleged omission, based upon information furnished to HHTI expressly for use therein by or on behalf of the holder.

(ii) Promptly upon receipt by a party indemnified under this Section 8.06(d) of notice of the commencement of any action against such indemnified party in respect of which indemnity or reimbursement may be sought against any indemnifying party under this Section 8.06(d), such indemnified party shall notify HHTI in writing of the commencement of such action, but the failure to so notify HHTI shall not relieve it of any liability which it may have to any indemnified party otherwise than under this Section 8.06(d) unless such failure shall materially adversely affect the defense of such action. In case notice of commencement of any such action shall be given to HHTI as above provided, HHTI shall be entitled to participate in and, to the extent it may wish, jointly with any other indemnifying party similarly notified, to assume the defense of such action at its own expense, with counsel chosen by it and reasonably satisfactory to such indemnified party. The indemnified party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be paid by the indemnified party unless (i) HHTI or the Partnership agrees to pay the same, (ii) HHTI fails to assume the defense of such action with counsel reasonably satisfactory to the indemnified party or (iii) the named parties to any such action (including any impleaded parties) have been advised by counsel selected by HHTI that representation of such indemnified party and HHTI by the same counsel would be inappropriate under applicable standards of professional conduct (in which case HHTI shall not have the right to assume the defense of such action on behalf of such indemnified party). No indemnifying party shall be liable for any settlement entered into without its consent.

(e) Contribution.

(i) If for any reason the indemnification provisions contemplated by Section 8.06(d) are either unavailable or insufficient to hold harmless an indemnified party in respect of any losses, claims, damages or liabilities referred to therein, then the party that would otherwise be required to provide indemnification or the indemnifying party (in either case, for purposes of this Section 8.06(e), the "Indemnifying Party") in respect of such losses, claims, damages or liabilities, shall contribute to the amount paid or payable by the party that would otherwise be entitled to indemnification or the indemnified party (in either case, for purposes of this Section 8.06(e), the "Indemnified Party") as a result of such losses, claims, damages, liabilities or expense, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and the Indemnified Party, as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact related to information supplied by the Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party. In no event shall any holder of Redemption Shares covered by the Shelf Registration be required to contribute an amount greater than the dollar amount of the proceeds received by such holder from the sale of Redemption Shares pursuant to the sale of Redemption Shares giving rise to the liability.

(ii) The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 8.06(e) were determined by pro rata allocation (even if the holders were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No person or entity determined to have committed a fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

(iii) The contribution provided for in this Section 8.06(e) shall survive the termination of this Agreement and shall remain in full force and effect regardless of any investigation made by or on behalf of any Indemnified Party.

(f) Listing on Securities Exchange. If HHTI shall list or maintain the listing of any shares of Common Stock on any securities exchange or national market system, it will at its expense list thereon, maintain and, when necessary, increase such listing to include the Redemption Shares.

(g) Notwithstanding any other provisions of this Agreement, the terms of any separate written agreement between the Partnership and a Partner pertaining to shelf registration or other registration rights shall supersede the terms of this Section 8.06.

8.07 Outside Activities of Limited Partners. Except as otherwise provided in this Agreement or as otherwise agreed to by the Partners, any Limited Partner or its Affiliate may engage in or possess an interest in other business ventures of every nature and description, independently or with others, including, but not limited to, enterprises engaged in the same business as the Partnership, and neither the Partnership nor the other Partners shall have any right by virtue of this Agreement in or to such independent ventures or to the income or profits derived therefrom.

ARTICLE IX
TRANSFERS OF PARTNERSHIP INTERESTS

9.01 Purchase for Investment.

(a) Each Limited Partner hereby represents and warrants to the General Partner and to the Partnership that the acquisition of his Partnership Interest is made as a principal for his account for investment purposes only and not with a view to the resale or distribution of such Partnership Interest.

(b) Each Limited Partner agrees that he will not sell, assign or otherwise transfer his Partnership Interest or any fraction thereof, whether voluntarily or by operation of law or at judicial sale or otherwise, to any Person who does not make the representations and warranties to the General Partner set forth in Section 9.01(a) above and similarly agree not to sell, assign or transfer such Partnership Interest or fraction thereof to any Person who does not similarly represent, warrant and agree.

9.02 Restrictions on Transfer of Limited Partnership Interests.

(a) Except as otherwise provided in Section 9.02(d) hereof, no Limited Partner may offer, sell, assign, hypothecate, pledge or otherwise transfer his Limited Partnership Interest, in whole or in part, whether voluntarily or by operation of law or at judicial sale or otherwise (collectively, a "Transfer") without the written consent of the General Partner, which consent may be withheld in the sole discretion of the General Partner. The General Partner may require, as a condition of any Transfer, that the transferor assume all costs incurred by the Partnership in connection therewith.

(b) No Limited Partner may effect a Transfer of his Limited Partnership Interest, in whole or in part, if, in the opinion of legal counsel for the Partnership, such proposed Transfer would require the registration of the Limited Partnership Interest under the Securities Act of 1933, as amended, or would otherwise violate any applicable federal or state securities or "Blue Sky" law (including investment suitability standards).

(c) No transfer by a Limited Partner of his Partnership Units, in whole or in part, may be made to any Person if (i) in the opinion of legal counsel for the Partnership, the transfer would result in the Partnership's being treated as an association taxable as a corporation (other than a qualified REIT subsidiary within the meaning of Section 856(i) of the Code), or (ii) such transfer is effectuated through an "established securities market" or a "secondary market" (or the substantial equivalent thereof) within the meaning of Section 7704 of the Code.

(d) Section 9.02(a) shall not apply to the following transactions, except that the General Partner may require that the transferor assume all costs incurred by the Partnership in connection therewith:

(i) any Transfer by a Limited Partner pursuant to the exercise of its Redemption Right under Section 8.05 hereof or any separate written agreement between the Partnership and a Partner relating to a redemption right;

(ii) any Transfer by a Limited Partner that is a corporation or other business entity to any of its Affiliates or subsidiaries or to any successor in interest of such Limited Partner; or

(iii) any donative Transfer by an individual Limited Partner to his immediate family members or any trust in which the individual or his immediate family members own, collectively, 100% of the beneficial interests. For purposes of this Section 9.02(d)(iii), the term "immediate family member" shall be deemed to include only an individual Limited Partner's spouse children and grandchildren.

(e) Any Transfer in contravention of any of the provisions of this Article IX shall be void and ineffectual and shall not be binding upon, or recognized by, the Partnership.

9.03 Admission of Substitute Limited Partner.

(a) Subject to the other provisions of this Article IX, an assignee of the Limited Partnership Interest of a Limited Partner (which shall be understood to include any purchaser, transferee, donee, or other recipient of any disposition of such Limited Partnership Interest) shall be deemed admitted as a Limited Partner of the Partnership only upon the satisfactory completion of the following:

(i) The assignee shall have accepted and agreed to be bound by the terms and provisions of this Agreement by executing a counterpart or an amendment thereof, including a revise Exhibit A, and such other

documents or instruments as the General Partner may require in order to effect the admission of such Person as a Limited Partner.

(ii) To the extent required, an amended Certificate evidencing the admission of such Person as a Limited Partner shall have been signed, acknowledged and filed for record in accordance with the Act.

(iii) The assignee shall have delivered a letter containing the representation set forth in Section 9.01(a) hereof and the agreement set forth in Section 9.01(b) hereof.

(iv) If the assignee is a corporation, partnership, limited liability company or trust, the assignee shall have provided the General Partner with evidence satisfactory to counsel for the Partnership of the assignee's authority to become a Limited Partner under the terms and provisions of this Agreement.

(v) The assignee shall have executed a power of attorney containing the terms and provisions set forth in Section 8.02 hereof.

(vi) The assignee shall have paid all reasonable legal fees of the Partnership and the General Partner and filing and publication costs in connection with his substitution as a Limited Partner.

(vii) The assignee has obtained the prior written consent of General Partner to its admission as a Substitute Limited Partner, which consent may be given or denied in the exercise of General Partner's sole and absolute discretion.

(b) For the purpose of allocating profits and losses and distributing cash received by the Partnership, a Substitute Limited Partner shall be treated as having become, and appearing in the records of the Partnership as, a Partner upon the filing of the Certificate described in Section 9.03(a)(ii) hereof or, if no such filing is required, the later of the date specified in the transfer documents or the date on which the General Partner has received all necessary instruments of transfer and substitution.

(c) The General Partner shall cooperate with the Person seeking to become a Substitute Limited Partner by preparing the documentation required by this Section and making all official filings and publications. The Partnership shall take all such action as promptly as practicable after the satisfaction of the conditions in this Article IX to the admission of such Person as a Limited Partner of the Partnership.

9.04 Rights of Assignees of Partnership Interests.

(a) Subject to the provisions of Section 9.01 and 9.02 hereof, except as required by operation of law, the Partnership shall not be obligated for any purposes whatsoever to recognize the assignment by any Limited Partner of his Partnership Interest until the Partnership has received notice thereof.

(b) Any Person who is the assignee of all or any portion of a Limited Partner's Partnership Interest, but does not become a Substitute Limited Partner and desires to make a further assignment of such Limited Partnership Interest, shall be subject to all of the provisions to this Article IX to the same extent and in the same manner as any Limited Partner desiring to make an assignment of his Limited Partnership Interest.

9.05 Effect of Bankruptcy, Death, Incompetence or Termination of a Limited Partner. The occurrence of an Event of Bankruptcy as to a Limited Partner, the death of a Limited Partner or a final adjudication that a Limited Partner is incompetent (which term shall include, but not be limited to, insanity) shall not cause the termination or dissolution of the Partnership, and the business of the Partnership shall continue if an order for relief in a bankruptcy proceeding is entered against a Limited Partner, the trustee or receiver of his estate or, if he dies, his executor, administrator or trustee, or, if he is finally adjudicated incompetent, his committee, guardian or conservator, shall have the rights of such Limited Partner for the purpose of settling or managing his estate property and such power as the bankrupt, deceased or incompetent Limited Partner possessed to assign all or any part of his Partnership Interest and to join with the assignee in satisfying conditions precedent to the admission of the assignee as a Substitute Limited Partner.

9.06 Joint Ownership of Interests. A Partnership Interest may be acquired by two individuals as joint tenants with right of survivorship, provided that such individuals either are married or are related and share the same home as tenants in common. The written consent or vote of both owners of any such jointly held Partnership Interest shall be required to constitute the action of the owners of such Partnership Interest; provided, however, that the written consent of only one joint owner will be required if the Partnership has been provided with evidence satisfactory to the counsel for the Partnership that the actions of a single joint owner can bind both owners under the applicable laws of the state of residence of such joint owners. Upon the death of one owner of a Partnership Interest held in a joint tenancy with a right of survivorship, the Partnership Interest shall become owned solely by the survivor as a Limited Partner and not as an assignee. The Partnership need not recognize the death of one of the owners of a jointly-held Partnership Interest until it shall have received notice of such death. Upon notice to the General Partner

from either owner, the General Partner shall cause the Partnership Interest to be divided into two equal Partnership Interests, which shall thereafter be owned separately by each of the former owners.

ARTICLE X
BOOKS AND RECORDS; ACCOUNTING; TAX MATTERS

10.01 Books and Records. At all times during the continuance of the Partnership the Partners shall keep or cause to be kept at the Partnership's specified office true and complete books of account in accordance with generally accepted accounting principles, including: (a) a current list of the full name and last known business address of each Partner, (b) a copy of the Certificate of Limited Partnership and all certificates of amendment thereto, (c) copies of the Partnership's federal, state and local income tax returns and reports, (d) copies of the Agreement and any financial statements of the Partnership for the three most recent years and (e) all documents and information required under the Act. Any Partner or his duly authorized representative, upon paying the cost of collection, duplication and mailing, shall be entitled to inspect or copy such records during ordinary business hours.

10.02 Custody of Partnership Funds; Bank Accounts.

(a) All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in such banking or brokerage institutions as the General Partner shall determine, and withdrawals shall be made only on such signature or signatures as the General Partner may, from time to time, determine.

(b) All deposits and other funds not needed in the operation of the business of the Partnership may be invested by the General Partner in investment grade instruments (or investment companies whose portfolio consists primarily thereof), government obligations, certificates of deposit, bankers' acceptances and municipal notes and bonds. The funds of the Partnership shall not be commingled with the funds of any other Person except for such commingling as may necessarily result from an investment in those investment companies permitted by this Section 10.02(b).

10.03 Fiscal and Taxable Year. The fiscal and taxable year of the Partnership shall be the calendar year.

10.04 Annual Tax Information and Report. Within 75 days after the end of each fiscal year of the Partnership, the General Partner shall furnish to each person who was a Limited Partner at any time during such year the tax information necessary to file such Limited Partner's individual tax returns as shall be reasonably required by law.

10.05 Tax Matters Partner; Tax Elections; Special Basis Adjustments.

(a) The General Partner shall be the Tax Matters Partner of the Partnership within the meaning of Section 6231(a)(7) of the Code. As Tax Matters Partner, the General Partner shall have the right and obligation to take all actions authorized and required, respectively, by the Code for the Tax Matters Partner subject to Section 5.01(f) of this Agreement. The General Partner shall have the right to retain professional assistance in respect of any audit of the Partnership by the Service and all out-of-pocket expenses and fees incurred by the General Partner on behalf of the Partnership as Tax Matters Partner shall constitute Partnership expenses. In the event the General Partner receives notice of a final partnership adjustment under Section 6223(a)(2) of the Code, the General Partner shall either (i) file a court petition for judicial review of such final adjustment within the period provided under Section 6226(a) of the Code, a copy of which petition shall be mailed to all Limited Partners on the date such petition is filed, or (ii) mail a written notice to all Limited Partners, within such period, that describes the General Partner's reasons for determining not to file such a petition.

(b) All elections required or permitted to be made by the Partnership under the Code shall be made by the General Partner in its sole discretion.

(c) In the event of a transfer of all or any part of the Partnership Interest of any Partner, the Partnership, at the option of the General Partner, may elect pursuant to Section 754 of the Code to adjust the basis of the Properties. Notwithstanding anything contained in Article IV of this Agreement, any adjustments made pursuant to Section 754 shall affect only the successor in interest to the transferring Partner and in no event shall be taken into account in establishing, maintaining or computing Capital Accounts for the other Partners for any purpose under this Agreement. Each Partner will furnish the Partnership with all information necessary to give effect to such election.

10.06 Reports to Limited Partners.

(a) The books of the Partnership shall be audited annually as of the end of each fiscal year of the Partnership by accountants selected by the General Partner, who shall be the same accountants responsible for the examination of the General Partner's books. The General Partner shall determine and prepare an annual balance sheet, a statement of partners' capital as of the end of such year, as well as statements of cash flow and income, all in

accordance with generally accepted accounting principles and accompanied by an independent auditor's report (collectively, the "Financial Statements"), together with all supplementary schedules and information prepared by the accountants related thereto. As a note to such Financial Statements, the General Partner shall prepare a schedule of all loans to the Partnership. Such schedule shall demonstrate that loans have been made, used, carried on the books of the Partnership (and repaid, if applicable) in accordance with the provisions of this Agreement. Within 90 days after the end of each fiscal year, the General Partner shall transmit the Financial Statements to the Limited Partners. The General Partner also shall prepare quarterly unreviewed Financial Statements and shall transmit such statements to the Limited Partners within 45 days of the end of each fiscal quarter of the Partnership.

(b) Any Partner shall further have the right to a private audit of the books and records of the Partnership, provided such audit is made for Partnership purposes, at the expense of the Partner desiring it and is made during normal business hours.

ARTICLE XI
AMENDMENT OF AGREEMENT; MERGER; NOTICE

11.01 Amendment of Agreement; Merger. The General Partner's consent shall be required for any amendment to the Agreement or any merger, consolidation or combination of the Partnership. The General Partner, without the consent of the Limited Partners, may amend this Agreement in any respect or cause the Partnership to merge, consolidate or combine with or into any other partnership, limited partnership, limited liability company or corporation as contemplated in Section 7.01(c) or (d) hereof; provided, however, that:

A. the following amendments and any other such merger, consolidation or combination of the Partnership (a "Merger") shall require the consent of Limited Partners (other than HHTI or any Subsidiary of the HHTI) holding more than 50% of the Percentage Interests of the Limited Partners (other than HHTI or any Subsidiary of HHTI):

(i) any amendment affecting the operation of the Conversion Factor or the Redemption Right (except as provided in Section 7.01(c)) in a manner adverse to the Limited Partners;

(ii) any amendment that would adversely affect the rights of the Limited Partners to receive the distributions payable to them hereunder, other than with respect to the issuance of additional Partnership Units pursuant to Section 4.02;

(iii) any amendment that would alter the Partnership's allocations of Profit and Loss to the Limited Partners, other than with respect to the issuance of additional Partnership Units pursuant to Section 4.02; or

(iv) any amendment to this Article XI.

B. The consent of each Limited Partner shall be required for any amendment that would impose on the Limited Partners any obligation to make additional Capital Contributions to the Partnership.

11.02 Notice to Limited Partners. The General Partner shall notify the Limited Partners of the substance of any amendment or Merger requiring the consent of the Limited Partners pursuant to Section 11.01 at least twenty (20) days prior to the effective date of such amendment or Merger.

ARTICLE XII
GENERAL PROVISIONS

12.01 Notices. All communications required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or upon deposit in the United States mail, registered, postage prepaid return receipt requested, to the Partners at the addresses set forth in Exhibit A attached hereto; provided, however, that any Partner may specify a different address by notifying the General Partner in writing of such different address. Notices to the Partnership shall be delivered at or mailed to its specified office.

12.02 Survival of Rights. Subject to the provisions hereof limiting transfers, this Agreement shall be binding upon and inure to the benefit of the Partners and the Partnership and their respective legal representatives, successors, transferees and assigns.

12.03 Additional Documents. Each Partner agrees to perform all further acts and execute, swear to, acknowledge and deliver all further documents which may be reasonable, necessary, appropriate or desirable to carry out the provisions of this Agreement or the Act.

12.04 Severability. If any provision of this Agreement shall be declared illegal, invalid, or unenforceable in any jurisdiction, then such provision shall be deemed to be severable from this Agreement (to the extent permitted by law) and in any event such illegality, invalidity or unenforceability shall not affect the remainder hereof.

12.05 Entire Agreement. This Agreement and exhibits attached hereto constitute the entire Agreement of the Partners and supersede all prior written agreements and prior and contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof.

12.06 Pronouns and Plurals. When the context in which words are used in the Agreement indicates that such is the intent, words in the singular number shall include the plural and the masculine gender shall include the neuter or female gender as the context may require.

12.07 Headings. The Article headings or sections in this Agreement are for convenience only and shall not be used in construing the scope of this Agreement or any particular Article.

12.08 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original copy and all of which together shall constitute one and the same instrument binding on all parties hereto, notwithstanding that all parties shall not have signed the same counterpart.

12.09 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia.

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Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATIONS

I, J. William Blackham, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2016 of Condor Hospitality Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 8, 2016 /s/ J. William Blackham

J. William Blackham
Chief Executive Officer

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Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATIONS

I, Jonathan Gantt, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2016 of Condor Hospitality Trust, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 8, 2016 /s/ Jonathan Gantt

Jonathan Gantt
Chief Financial Officer

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Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Condor Hospitality Trust, Inc. on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, J. William Blackham, Chief Executive Officer of Condor Hospitality Trust Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Condor Hospitality Trust, Inc. at the dates and for the periods indicated.

November 8, 2016

/s/ J. William Blackham

J. William Blackham
Chief Executive Officer

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Condor Hospitality Trust, Inc., on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Jonathan Gantt, Chief Financial Officer of Condor Hospitality Trust, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Condor Hospitality Trust, Inc. at the dates and for the periods indicated.

November 8, 2016

/s/ Jonathan Gantt

Jonathan Gantt
Chief Financial Officer

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