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, 2018

OR

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

For the transition period from ______ to ______.

Commission file number: 001-34087

CONDOR HOSPITALITY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**52-1889548** (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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definitions of “large accelerated file,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12-b2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Small reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act YES ☐ NO ☐

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 November 9, 2018 there were 11,887,133 shares of common stock, par value $.01 per share, outstanding.

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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, 2018	**December 31, 2017**
Assets		
Investment in hotel properties, net	$ 232,103	$ 201,722
Investment in unconsolidated joint venture	6,638	7,747
Cash and cash equivalents	5,194	5,441
Restricted cash, property escrows	5,791	4,894
Accounts receivable, net	2,185	1,707
Prepaid expenses and other assets	2,502	3,220
Derivative assets, at fair value	1,090	391
Investment in hotel properties held for sale, net	4,085	17,858
Total Assets	$ 259,588	$ 242,980
Liabilities and Equity		
Liabilities		
Accounts payable, accrued expenses, and other liabilities	$ 7,532	$ 7,046
Dividends and distributions payable	2,480	2,470
Convertible debt, at fair value	1,049	1,069
Long-term debt, net of deferred financing costs	135,690	111,097
Long-term debt related to hotel properties held for sale, net of deferred financing costs	1,212	9,484
Total Liabilities	147,963	131,166
Equity		
Shareholders' Equity		
Preferred stock, 40,000,000 shares authorized:		
6.25% Series E, 925,000 shares authorized, $.01 par value, 925,000 shares outstanding, liquidation preference of $9,395	10,050	10,050
Common stock, $.01 par value, 200,000,000 shares authorized; 11,883,554 and 11,833,573 shares outstanding	119	118
Additional paid-in capital	231,750	230,727
Accumulated deficit	(131,543)	(130,489)
Total Shareholders' Equity	110,376	110,406
Noncontrolling interest in consolidated partnership (Condor Hospitality Limited Partnership), redemption value of $824 and $871	1,249	1,408
Total Equity	111,625	111,814
Total Liabilities and Equity	$ 259,588	$ 242,980

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,	
	2018	**2017**	**2018**	**2017**
Revenue				
Room rentals and other hotel services	$ 15,462	$ 15,562	$ 49,975	$ 40,175
Operating Expenses				
Hotel and property operations	10,148	10,269	31,318	27,106
Depreciation and amortization	2,423	1,993	7,126	4,813
General and administrative	1,599	1,702	5,073	4,705
Acquisition and terminated transactions	96	453	186	1,170
Equity transactions	-	-	-	343
Total operating expenses	14,266	14,417	43,703	38,137
Operating income	1,196	1,145	6,272	2,038
Net gain (loss) on disposition of assets	3,716	(46)	5,587	4,803
Equity in earnings (loss) of joint venture	(41)	159	251	295
Net gain on derivatives and convertible debt	116	14	719	416
Other expense, net	(23)	(43)	(57)	(83)
Interest expense	(2,154)	(1,405)	(6,173)	(3,468)
Loss on debt extinguishment	-	-	-	(800)
Impairment (loss) recovery, net	-	(848)	93	(1,598)
Earnings (loss) before income taxes	2,810	(1,024)	6,692	1,603
Income tax expense	(132)	(15)	(315)	(50)
Net earnings (loss)	2,678	(1,039)	6,377	1,553
(Earnings) loss attributable to noncontrolling interest	(20)	7	(47)	(10)
Net earnings (loss) attributable to controlling interests	2,658	(1,032)	6,330	1,543
Dividends declared and in kind dividends deemed on preferred stock	(145)	(205)	(434)	(12,079)
Net earnings (loss) attributable to common shareholders	$ 2,513	$ (1,237)	$ 5,896	$ (10,536)
Earnings(Loss) per Share				
Total - Basic Earnings (Loss) per Share	$ 0.21	$ (0.11)	$ 0.50	$ (1.21)
Total - Diluted Earnings (Loss) per Share	$ 0.21	$ (0.11)	$ 0.49	$ (1.21)

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30, 2017								
	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, 2016	6,245	$ 61,333	763	$ 8	$ 118,655	$ (112,024)	$ 67,972	$ 2,827	$ 70,799
Stock-based compensation	-	-	90	1	579	-	580	-	580
Long-term incentive plan	-	-	-	-	-	-	-	85	85
Cancellation of LTIP units	-	-	-	-	1,941	-	1,941	(1,941)	-
Issuance of common stock	-	-	4,801	47	45,893	-	45,940	-	45,940
Issuance of common units	-	-	-	-	-	-	-	435	435
Dividends and distributions declared									
Common Stock ($0.585 per share)	-	-	-	-	-	(6,795)	(6,795)	-	(6,795)
Series D Preferred Stock	-	-	-	-	-	(650)	(650)	-	(650)
Series E Preferred Stock	-	-	-	-	-	(339)	(339)	-	(339)
Fractional common shares settled in reverse stock split	-	-	-	-	(1)	-	(1)	-	(1)
Conversion of Series D Preferred to common stock and issuance of Series E Preferred	(5,320)	(51,283)	6,005	60	61,273	(11,090)	(1,040)	-	(1,040)
Warrant exchange	-	-	-	-	289	-	289	-	289
Net earnings	-	-	-	-	-	1,543	1,543	10	1,553
Balance at September 30, 2017	925	$ 10,050	11,659	$ 116	$ 228,629	$ (129,355)	$ 109,440	$ 1,416	$110,856

	Nine months ended September 30, 2018								
	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, 2017	925	$ 10,050	11,834	$ 118	$ 230,727	$ (130,489)	$ 110,406	$ 1,408	$ 111,814
Stock-based compensation	-	-	22	-	722	-	722	-	722
Issuance of common stock	-	-	28	1	259	-	260	-	260
Issuance of common units	-	-	-	-	-	-	-	50	50
Dividends and distributions declared									
Common Stock ($0.585 per share)	-	-	-	-	-	(6,950)	(6,950)	-	(6,950)
Series E Preferred dividends declared	-	-	-	-	-	(434)	(434)	-	(434)
Common unit distribution declared ($0.011 per unit)	-	-	-	-	-	-	-	(54)	(54)
Redemption of common units	-	-	-	-	42	-	42	(202)	(160)
Net earnings	-	-	-	-	-	6,330	6,330	47	6,377
Balance at September 30, 2018	925	$ 10,050	11,884	$ 119	$ 231,750	$ (131,543)	$ 110,376	$ 1,249	$111,625

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,	
	2018	2017
Cash flows from operating activities:		
Net earnings	$ 6,377	$ 1,553
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization expense	7,126	4,813
Net gain on disposition of assets	(5,587)	(4,803)
Net gain on derivatives and convertible debt	(719)	(416)
Equity in earnings of joint venture	(251)	(295)
Distributions from cumulative earnings of joint venture	187	51
Amortization of deferred financing costs	1,080	726
Loss on extinguishment of debt	-	800
Impairment (recovery) loss, net	(93)	1,598
Stock-based compensation and long-term incentive plan expense	912	665
Warrant issuance cost	-	289
Provision for deferred taxes	294	-
Changes in operating assets and liabilities:		
Increase in assets	(623)	(954)
Increase in liabilities	532	3,603
Net cash provided by operating activities	9,235	7,630
Cash flows from investing activities:		
Additions to hotel properties	(1,527)	(2,245)
Deposit on hotel property and franchise fees	-	(475)
Distributions in excess of cumulative earnings from joint venture	1,173	628
Hotel acquisitions	(35,643)	(122,269)
Net proceeds from sale of hotel assets	19,690	23,167
Net cash used in investing activities	(16,307)	(101,194)
Cash flows from financing activities:		
Deferred financing costs	(147)	(3,611)
Proceeds from long-term debt	35,318	147,500
Principal payments on long-term debt	(19,930)	(91,091)
Debt early extinguishment penalties	-	(454)
Proceeds from common stock issuance	260	45,879
Series E Preferred Stock issuance costs	-	(1,190)
Redemption of common units	(160)	-
Tax withholdings on stock compensation	(190)	-
Cash dividends paid to common shareholders	(6,941)	(4,669)
Cash dividends paid to common unit holders	(54)	-
Cash dividends paid to preferred shareholders	(434)	(1,821)
Other items	-	(59)
Net cash provided by financing activities	7,722	90,484
Increase (decrease) in cash, cash equivalents, and restricted cash	650	(3,080)
Cash, cash equivalents, and restricted cash beginning of period	10,335	13,676
Cash, cash equivalents, and restricted cash end of period	$ 10,985	$ 10,596
Supplemental cash flow information:		
Interest paid	$ 5,052	$ 2,652
Income taxes paid, net of refunds	$ 66	$ 88
Schedule of noncash investing and financing activities:		
Fair value of operating partnership common units issued in acquisitions	$ 50	$ 435
In kind dividends deemed on preferred stock	$ -	$ 9,900
Debt assumed in acquisition	$ -	$ 9,096

See accompanying notes to consolidated financial statements.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Condor Hospitality Trust, Inc. ("Condor"), a Maryland corporation, 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, 2018, the Company owned 16 hotels in eight states, including one hotel owned through an 80% interest in an unconsolidated joint venture (the "Atlanta JV"). References to the "Company", "we," "our," and "us" herein refer to Condor Hospitality Trust, Inc., including, as the context requires, its direct and indirect subsidiaries.

The Company, through its wholly owned subsidiary Condor Hospitality REIT Trust, owns a controlling interest in Condor Hospitality Limited Partnership (the "operating partnership"), for which we serve as general partner. The operating partnership, including its various subsidiaries, holds substantially all of the Company's assets (with the exception of the furniture and equipment of all properties held by TRS Leasing, Inc.) and conducts all of its operations. At September 30, 2018, the Company owned 99.4% of the common operating units ("common units") of the operating partnership with the remaining common units owned by other limited partners.

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

Historically, as a result of the geographic areas in which we operate, the operations of our hotels have been seasonal in nature. Generally, occupancy rates, revenue, and operating income have been greater in the second and third quarters of the calendar year than in the first and fourth quarters, with the exception of our hotels located in Florida, which experience peak demand in the first and fourth quarters annually.

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 the operating partnership and its subsidiaries and our wholly owned TRS and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

We evaluate each of our investments and contractual relationships to determine whether they meet the guidelines for consolidation. Entities are consolidated if the determination is made that we are the primary beneficiary in a variable interest entity ("VIE") or we maintain control of the asset through our voting interest or other rights in the operation of the entity. The Company has concluded that our operating partnership meets the criteria to be considered a VIE of which the Company is the primary beneficiary and, accordingly, the Company consolidates the operating partnership. The Company's sole significant asset is its investment in the operating partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the operating partnership. All of the Company's debt is an obligation of the operating partnership.

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

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 consolidated financial statements for the periods presented. Interim results are not necessarily indicative of full-year performance for the year ending December 31, 2018 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, 2017.

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 Hotel Properties

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

Effective January 1, 2018, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2017-01, *Clarifying the Definition of a Business*. As such, if substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. When we conclude that an acquisition meets this threshold, acquisition costs will be capitalized as part of our allocation of the purchase price of the acquired hotel properties. This guidance is applied prospectively. We concluded that all hotel acquisitions completed in 2018 through the third quarter were the acquisition of assets and as such acquisition costs were capitalized as part of these transactions (see Note 3).

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

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

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

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

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

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 VIE or through our voting interest in a voting interest entity ("VOE") and we have the ability to provide significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliate as they occur, with losses limited to the extent of our investment in, advances to, and commitments to the investee. Pursuant to our Atlanta JV agreement, allocations of the profits and losses of our Atlanta JV may be allocated disproportionately to nominal ownership percentages due to specified preferred return rate thresholds.

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

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

Assets Held for Sale and Discontinued Operations

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

In accordance with FASB 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*, only disposals representing a strategic shift in operations that have a major effect on an entity's operations and financial results are presented as discontinued operations. We anticipate that most of our hotel dispositions will not be classified as discontinued operations as most will not fit this definition.

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.

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

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents includes cash and highly liquid investments with original maturities of three months or less when acquired, and are carried at costs which approximates fair value.

Restricted cash consists of cash held in escrow for the replacement of furniture and fixtures or for real estate taxes and property insurance as required under certain loan agreements.

Revenue Recognition

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

Sales, use, occupancy, and similar taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue in the consolidated statements of operations.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Rooms	$ 14,710	$ 14,791	$ 47,598	$ 37,943
Food and beverages	352	390	1,138	1,153
Other	400	381	1,239	1,079
Total revenue	$ 15,462	$ 15,562	$ 49,975	$ 40,175

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, an entity 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 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 and equity instruments, to perform impairment assessments, to account for hotel acquisitions, in the valuation of stock-based compensation, and for disclosure purposes. Fair value measurements are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

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

With the exception of fixed rate debt (see Note 8) and other financial instruments carried at fair value, the carrying amounts of the Company's financial instruments approximates their fair values due to their short-term nature or variable market-based interest rates.

Fair Value Option

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

Recently Adopted 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 replaced most existing revenue recognition guidance in U.S. GAAP when it became effective. The original updated accounting guidance was effective for annual and interim reporting periods in fiscal years beginning after December 15, 2016, however, in July 2015, the FASB approved a one year delay of the effective date to fiscal years beginning after December 15, 2017. As such, the standard was effective for the Company on January 1, 2018 and was adopted on that date using the modified retrospective transition method. Due to the short-term nature of the Company's revenue streams, the adoption of this standard had no impact on the Company's revenue or net income, and therefore, no adjustment was recorded to the Company's opening accumulated deficit. The adoption of this standard resulted in additional disclosures. Furthermore, for real estate sales to third parties, primarily a result of disposition of real estate in exchange for cash with few contingencies, the standard did not impact the recognition of our accounting for these sales.

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

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

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

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

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes most existing lease guidance in U.S. GAAP when it becomes effective. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Company for annual periods in fiscal years beginning after December 15, 2018, permits early adoption, and mandates a modified retrospective transition method. The Company is required to adopt ASU 2016-02 on January 1, 2019. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

NOTE 2. INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consisted of the following at September 30, 2018 and December 31, 2017:

	As of					
	September 30, 2018			December 31, 2017		
	Held for sale	Held for use	Total	Held for sale	Held for use	Total
Land	$ 2,304	$ 20,201	$ 22,505	$ 4,083	$ 17,766	$ 21,849
Buildings, improvements, vehicle	4,462	206,667	211,129	19,718	176,334	196,052
Furniture and equipment	719	20,455	21,174	5,177	16,126	21,303
Initial franchise fees	25	1,784	1,809	162	1,484	1,646
Construction-in-progress	-	166	166	52	226	278
Investment in hotel properties	7,510	249,273	256,783	29,192	211,936	241,128
Less accumulated depreciation	(3,425)	(17,170)	(20,595)	(11,334)	(10,214)	(21,548)
Investment in hotel properties, net	$ 4,085	$ 232,103	$ 236,188	$ 17,858	$ 201,722	$ 219,580

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

NOTE 3. ACQUISITION OF HOTEL PROPERTIES

During the nine months ended September 30, 2018, the Company acquired two wholly owned hotel properties, each of which was acquired in the first quarter of 2018. The allocation of the purchase price based on fair value was as follows:

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

(1) Contractual purchase price of $19,750 and $16,325 for Austin TownePlace Suites and Summerville Home2 Suites, respectively.
(2) All debt was drawn from the $150,000 secured revolving credit facility (the "credit facility") at acquisition.
(3) Total issuance of 259,685 common units. Common units may be redeemed at a rate of one common share for 52 common units (see Note 11).

Included in the consolidated statements of operations for the three and nine months ended September 30, 2018 are total revenues of $1,761 and $5,335, respectively, and total operating income of $253 and $1,420, respectively, which represent the results of operations for the two hotels acquired in 2018 since the date of acquisition.

During the nine months ended September 30, 2017, the Company acquired seven wholly owned hotel properties. The allocation of the purchase price based on fair value was as follows:

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

(1) The Lake Mary purchase price was subject to a post-closing adjustment of up to $250 to be paid to the seller if the hotel achieved a stipulated hotel net operating income level in 2017. This contingent consideration was included in the purchase price allocation at its estimated fair value on the date of the acquisition. The full amount of $250 was paid to the seller in December of 2017.
(2) Debt of $9,096 with Morgan Stanley Bank of America Merrill Lynch Trust 2014-C18 was assumed related to the Home2 Suites Southaven, MS acquisition. All other debt was drawn from the credit facility at acquisition.
(3) Total issuance of 1,940,451 common units. Common units may be redeemed at a rate of one common share for 52 common units (see Note 11).

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

Included in the consolidated statement of operations for the three and nine months ended September 30, 2017 are total revenues of $5,723 and $10,352, respectively, and total operating income of $1,421 and $2,780, respectively, which represent the results of operations for the seven hotels acquired in 2017 since the date of acquisition.

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

Pro Forma Results

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Total revenue	$ 15,462	$ 18,205	$ 50,618	$ 54,522
Operating income	$ 1,292	$ 1,859	$ 6,601	$ 6,119
Net earnings (loss) attributable to common shareholders	$ 2,609	$ (1,109)	$ 6,091	$ (9,268)
Net earnings (loss) per share - Basic	$ 0.22	$ (0.10)	$ 0.51	$ (1.07)
Net earnings (loss) per share - Diluted	$ 0.22	$ (0.10)	$ 0.51	$ (1.07)

NOTE 4. INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

On August 1, 2016, the Company entered into a joint venture, the Atlanta JV, with Three Wall Capital LLC and certain of its affiliates ("TWC") to acquire an Aloft hotel in downtown Atlanta, Georgia. The Atlanta Aloft acquisition had a total purchase price of $43,550 and closed on August 22, 2016. 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 the operating partnership indirectly owns an 80% equity interest, and Spring Street Hotel OpCo II LLC, of which our TRS indirectly owns an 80% equity interest. TWC owns the remaining 20% equity interest in these two companies.

The purchase was partially funded with a $33,750 term loan secured by the property. 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 first of these extension options was exercised by the Atlanta JV on September 9, 2018. The interest rate is a floating rate calculated on the one-month LIBOR plus 5.0%, and as a condition at the time of the extension, the Atlanta JV purchased a LIBOR cap of 3.0%. The term loan remains outstanding at September 30, 2018 and has a current interest rate of 7.19%. 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.

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

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 $92 and $91 for the three months ended September 30, 2018 and 2017, respectively, and $283 and $273 for the nine months ended September 30, 2018 and 2017, respectively.

Net cash flow from the Atlanta JV is distributed each quarter first with a 10% annual preferred return on capital contributions to Condor, second with a 10% annual preferred return on capital contributions to TWC, and third with any remainder distributed to the partners based on their pro-rata equity ownership. Profits are allocated in the same proportion as net cash flow. Losses are allocated based on pro-rata equity ownership. Cash distributions totaling $400 and $280 in the three months ended September 30, 2018 and 2017, respectively, and $1,360 and $680 in the nine months ended September 30, 2018 and 2017, respectively, were received by the Company from the Atlanta JV. 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 table represents the total assets, liabilities, and equity, including the Company's share, of the Atlanta JV as of September 30, 2018 and December 31, 2017:

	As of	
	September 30, 2018	**December 31, 2017**
Investment in hotel properties, net	$ 47,093	$ 48,013
Cash and cash equivalents	801	1,404
Restricted cash, property escrows	860	682
Accounts receivable, prepaid expenses, and other assets	552	176
Total Assets	$ 49,306	$ 50,275
Accounts payable, accrued expenses, and other liabilities	$ 1,267	$ 1,019
Land option liability	6,190	6,190
Long-term debt, net of deferred financing costs	33,552	33,382
Total Liabilities	41,009	40,591
Condor equity	6,638	7,747
TWC equity	1,659	1,937
Total Equity	8,297	9,684
Total Liabilities and Equity	$ 49,306	$ 50,275

The table below provides the components of net earnings (loss), including the Company's share of the Atlanta JV, for the three and nine months ended September 30, 2018 and 2017.

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue				
Room rentals and other hotel services	$ 3,106	$ 3,049	$ 9,484	$ 9,099
Operating Expenses				
Hotel and property operations	2,097	1,895	6,110	5,818
Depreciation and amortization	362	356	1,083	1,066
Total operating expenses	2,459	2,251	7,193	6,884
Operating income	647	798	2,291	2,215
Net loss on disposition of assets	(19)	(1)	(36)	(5)
Net loss on derivative	-	(1)	-	(3)
Interest expense	(679)	(597)	(1,941)	(1,838)
Net earnings (loss)	$ (51)	$ 199	$ 314	$ 369
Condor allocated earnings (loss)	$ (41)	$ 159	$ 251	$ 295

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

TWC allocated earnings (loss)	(10)	40	63	74
Net earnings (loss)	$ (51)	$ 199	$ 314	$ 369

NOTE 5. DISPOSITIONS OF HOTEL PROPERTIES

As of September 30, 2018, the Company had one hotel classified as held for sale. At December 31, 2017, the Company had three hotels held for sale and classified one additional property as held for sale during each the first and third quarters of 2018.

During the three months ended September 30, 2018 and 2017, the Company sold one hotel and two hotels, respectively, resulting in total gains of $3,722 and $0, respectively. During the nine months ended September 30, 2018 and 2017, the Company sold four and seven hotels, respectively, resulting in total gains of $5,706 and $5,031, respectively. One of the hotels sold during the first quarter of 2018 had been previously impaired and a recovery of impairment totaling $93 was recognized upon the sale. Both of the hotels sold during first and third quarters of 2017 had been previously impaired and recoveries of impairment totaling $47 in the three months ended September 30, 2017 and $80 in the nine months ended September 30, 2017 were recognized upon the sales.

NOTE 6. LONG-TERM DEBT

Long-term debt related to wholly owned properties, including debt related to hotel properties held for sale, consisted of the following loans payable at September 30, 2018 and December 31, 2017:

Lender	**Balance at September 30, 2018**	**Interest rate at September 30, 2018**	**Maturity**	**Amortization provision**	**Properties encumbered at September 30, 2018**	**Balance at December 31, 2017**
Fixed rate debt						
Morgan Stanley Bank of America Merrill Lynch Trust 2014-C18	$ 8,861	4.54%	08/2024	25 years	1	$ 8,987
Great Western Bank (1)	13,729	4.33%	12/2021 (5)	25 years	1	13,950
Great Western Bank (1)	1,242	4.33%	12/2021 (5)	7 years	-	1,380
Total fixed rate debt	23,832					24,317
Variable rate debt						
Wells Fargo	26,154	4.49% (2)	11/2022 (6)	30 years	3	26,465
KeyBank credit facility (3)	89,487	5.16% (4)	03/2020 (7)	Interest only	10	73,303
Total variable rate debt	115,641				15	99,768
Total long-term debt	$ 139,473					$ 124,085
Less: Deferred financing costs	(2,571)					(3,504)
Total long-term debt, net of deferred financing costs	136,902					120,581
Less: Long-term debt related to hotel properties held for sale, net of deferred financing costs of $24 and $333	(1,212)					(9,484)
Long-term debt related to hotel properties held for use, net of deferred financing costs of $2,547 and $3,171	$ 135,690					$ 111,097

(1) Both loans are collateralized by Aloft Leawood.
(2) Variable rate of 30-day LIBOR plus 2.39%, effectively fixed at 4.44% after giving effect to interest rate swap (see Note 8).
(3) $150,000 credit facility that includes an accordion feature that would allow the credit facility to be increased to $400,000 with additional lender commitments. Available borrowing capacity under the credit facility is based on a borrowing base formula for the pool of hotel properties securing the facility. Total unused availability under this credit facility was $7,613 at September 30, 2018. The commitment fee on unused facility is 0.20%.

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

(4) Borrowings under the facility accrue interest based on a leverage-based pricing grid, at the Company's option, at either LIBOR plus a spread ranging from 2.25% to 3.00% (depending on leverage) or a base rate plus a spread ranging from 1.25% to 2.00% (depending on leverage); 30-day LIBOR for $50,000 notional capped at 2.5% after giving effect to market rate cap (see Note 8).
(5) Term may be extended for additional two years subject to interest rate adjustments.
(6) Two one-year extension options subject to the satisfaction of certain conditions.
(7) Two one-year extension options available subject to certain conditions including the completion of specific capital achievements.

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 2018 and thereafter are as follows:

	Held for sale	Held for use	Total
Remainder of 2018	$ -	$ 288	$ 288
2019	-	1,183	1,183
2020	1,236	89,482	90,718
2021	-	14,344	14,344
2022	-	24,886	24,886
Thereafter	-	8,054	8,054
Total	$ 1,236	$ 138,237	$ 139,473

Financial Covenants

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

- Leverage Ratio: The ratio of consolidated total indebtedness to consolidated total asset value cannot exceed 60%. Commencing on March 31, 2019, the foregoing leverage ratio will no longer be applicable, and in lieu thereof, the ratio of consolidated total indebtedness to adjusted consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA") for the most recently ended four fiscal quarters cannot exceed 6.25 to 1.
- Secured Leverage Ratio: The ratio of consolidated secured indebtedness (excluding the credit facility) to consolidated total asset value cannot exceed 40%.
- Fixed Charge Coverage Ratio: The ratio of adjusted consolidated EBITDA for the most recently ended four fiscal quarters to consolidated fixed charges for the most recently ended four fiscal quarters cannot be less than 1.50 to 1.
- Tangible Net Worth: Consolidated tangible net worth cannot be less than $55 million plus 80% of net offering proceeds.
- Unhedged Variable Rate Debt: Consolidated unhedged variable rate debt cannot exceed 25% of consolidated total asset value.
- Distributions: The Company is permitted to make distributions during any period of four fiscal quarters in an aggregate amount of up to 95% of funds available for distribution.

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

If we fail to pay our indebtedness when due, fail to comply with covenants or otherwise default on our loans, unless waived, we could incur higher interest rates during the period of such loan defaults, be required to immediately pay our indebtedness, and ultimately lose our hotels through lender foreclosure if we are unable to obtain alternative sources of financing with acceptable terms. Our credit facility contains cross-default provisions which would allow the lenders under our credit facility to declare a default and accelerate our indebtedness to them if we default on our other loans and such default would permit that lender to accelerate our indebtedness under any such loan.

As of September 30, 2018, we are not in default of any of our loans.

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

NOTE 7. CONVERTIBLE DEBT AT FAIR VALUE

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

The Company has made an irrevocable election to record this 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. Gains related to this Note were recognized totaling $1 and $12 during the three months ended September 30, 2018 and 2017, respectively and $20 and $277 during the nine months ended September 30, 2018 and 2017, respectively. The fair value of the Note is determined using a trinomial lattice-based model, which is a generally accepted computational model typically used for pricing options. The fair value of the Note on the date of issuance was determined to be equal to its principal amount. Interest expense related to this Note is recorded separately from other changes in its fair value within interest expense each period.

The following table represents the difference between the fair value and the unpaid principal balance of the Note as of September 30, 2018:

	Fair value as of September 30, 2018	Unpaid principal balance as of September 30, 2018	Fair value carrying amount over/(under) unpaid principal
6.25% Convertible Debt	$ 1,049	$ 1,012	$ 37

NOTE 8. FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

Our determination of fair value measurements is based on the assumptions that market participants would use in pricing the asset or liability. At September 30, 2018, the Company's convertible debt (see Note 7) 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 determination of the fair value of acquired properties in 2018 and 2017 (see Note 3), in the accounting for the Company's equity transactions that occurred in March 2017 (see Note 10), in the valuation of the stock-based compensation grants (see Note 12), and in the assessment of impaired and potentially impaired hotels during the three and nine months ended September 30, 2018 and 2017.

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, 2018 and December 31, 2017 are as follows:

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

Associated debt	**Type**	**Terms**	**Effective Date**	**Maturity Date**	**Notional amount at September 30, 2018**	**Notional amount at December 31, 2017**
Wells Fargo	Swap	Swaps 30-day LIBOR for fixed rate of 2.053%	11/2017	11/2022	$ 26,154 (1)	$ 26,465 (1)
Credit facility	Cap	Caps 30-day LIBOR at 2.50%	03/2017	03/2019	$ 50,000	$ 50,000

(1) Notional amount amortizes consistently with the principal amortization of the associated loan.

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

All derivatives recognized by the Company are reported as derivative assets 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 $115 and $2 for the three months ended September 30, 2018 and 2017, respectively, and $699 and $139 for the nine months ended September 30, 2018 and 2017, respectively, were recognized related to derivative instruments.

Recurring Fair Value Measurements

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

	Fair value at September 30, 2018	**Level 1**	**Level 2**	**Level 3**
Interest rate derivatives	$ 840	$ -	$ 840	$ -
Series E Preferred embedded redemption option	250	-	-	250
Convertible debt	(1,049)	-	-	(1,049)
Total	$ 41	$ -	$ 840	$ (799)

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

There were no transfers between levels during the three or nine months ended September 30, 2018 or 2017.

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

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

	Three months ended September 30,					
	2018			2017		
	Series E Preferred embedded redemption option	Convertible debt	Total	Series E Preferred embedded redemption option	Convertible debt	Total
Fair value, beginning of period	$ 266	$ (1,050)	$ (784)	$ 333	$ (1,050)	$ (717)
Net gains (losses) recognized in earnings	(16)	1	(15)	4	12	16
Purchase and issuances	-	-	-	-	-	-
Realized (gains) losses	-	-	-	-	-	-
Sales and settlements	-	-	-	-	-	-
Gross transfers into Level 3	-	-	-	-	-	-
Gross transfers out of Level 3	-	-	-	-	-	-
Fair value, end of period	$ 250	$ (1,049)	$ (799)	$ 337	$ (1,038)	$ (701)
Total unrealized gains (losses) during the period included in earnings related to instruments held at end of period	$ (16)	$ 1	$ (15)	$ 4	$ 12	$ 16

	Nine months ended September 30,					
	2018			2017		
	Series E Preferred embedded redemption option	Convertible debt	Total	Series E Preferred embedded redemption option	Convertible debt	Total
Fair value, beginning of period	$ 314	$ (1,069)	$ (755)	$ -	$ (1,315)	$ (1,315)
Net gains (losses) recognized in earnings	(64)	20	(44)	187	277	464
Purchase and issuances	-	-	-	150	-	150
Realized (gains) losses	-	-	-	-	-	-
Sales and settlements	-	-	-	-	-	-
Gross transfers into Level 3	-	-	-	-	-	-
Gross transfers out of Level 3	-	-	-	-	-	-
Fair value, end of period	$ 250	$ (1,049)	$ (799)	$ 337	$ (1,038)	$ (701)
Total unrealized gains (losses) during the period included in earnings related to instruments held at end of period	$ (64)	$ 20	$ (44)	$ 187	$ 277	$ 464

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 risks. Credit spreads take into consideration general market conditions and maturity. The inputs utilized in estimating the fair value of debt are classified in Level 2 of the fair value hierarchy. Both the carrying value and estimated fair value of the Company’s long-term debt are presented net of deferred financing costs in the table below:

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

	Carrying value as of		Estimated fair value as of	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Held for use	$ 135,690	$ 111,097	$ 133,760	$ 110,573
Held for sale	1,212	9,484	1,212	9,642
Total	$ 136,902	$ 120,581	$ 134,972	$ 120,215

Impaired Hotel Properties

In the performance of impairment analysis for both held for sale and held for use properties, fair value is determined with the assistance of independent real estate brokers and through the use of operating results and revenue multiples based on the Company's experience with hotel sales as well as available industry information. For held for sale properties, estimated selling costs are based on our experience with similar asset sales. These are considered Level 3 measurements. The amount of impairment and recovery of previously recorded impairment recognized in the three and nine months ended September 30, 2018 and 2017 is shown in the table below:

	Three months ended September 30,			
	2018		2017	
	Number of hotels	Impairment (loss) recovery	Number of hotels	Impairment (loss) recovery
Sold hotels:				
Impairment loss	-	$ -	2	$ (895)
Impairment recovery	-	-	2	47
Total net impairment (loss) recovery:	-	$ -	4	$ (848)

	Nine months ended September 30,			
	2018		2017	
	Number of hotels	Impairment (loss) recovery	Number of hotels	Impairment (loss) recovery
Sold hotels:				
Impairment loss	-	$ -	4	$ (1,678)
Impairment recovery	1	93	2	80
Total net impairment (loss) recovery:	1	$ 93	6	$ (1,598)

NOTE 9. COMMON STOCK

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

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

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

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

On March 29, 2017, the Company sold in an underwritten public offering 4,772,500 shares of its common stock, including 622,500 shares issued pursuant to the full exercise of an option to purchase additional shares of common stock granted to the underwriters, at a public offering price per share of $10.50. Net proceeds, after the payment of related expenses incurred through September 30, 2017, from this offering totaled $45,888.

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

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

There were no sales of common stock under the ATM program during the three months ended September 30, 2018. During the three months ended September 30, 2017, we sold 5,950 shares of common stock under the ATM program at an average sales price of $10.50 per share for gross proceeds totaling $62 and net proceeds totaling $61 after cash commissions of 2% of gross proceeds paid to the Sales Agents and additional related costs. During the nine months ended September 30, 2018, we sold 28,474 shares of common stock under the ATM program at an average sales price of $10.40 per share, for gross proceeds totaling $296 and net proceeds totaling $260. Since the inception of the ATM program, we have sold 197,478 shares of common stock at an average sales price of $10.18 per share for gross proceeds totaling $2,011 and net proceeds totaling $1,879.

NOTE 10. PREFERRED STOCK

Series D Preferred Stock

On March 16, 2016, the Company and SREP III Flight-Investco, L.P. ("SREP"), an affiliate of StepStone Group LP, entered into a Stock Purchase Agreement pursuant to which Condor issued and sold 3,000,000 shares of Series D Preferred Stock to SREP for an aggregate purchase price of $30,000. Simultaneously, the Company entered into an Exchange Agreement with RES pursuant to which all 3,000,000 outstanding shares of 6.25% Series C Cumulative Convertible Preferred Stock ("Series C Preferred Stock") were exchanged for 3,000,000 shares of Series D Preferred Stock with an additional 245,156 shares of Series D Preferred Stock issued to RES in lieu of a portion of the accrued and unpaid dividends due on the Series C Preferred Stock. The Note (see Note 7) and cash of $1,484 were also issued to RES as part of this exchange transaction.

On February 28, 2017, the holders of the 6,245,156 outstanding shares of Series D Preferred Stock voluntarily converted their shares into 6,004,957 shares of common stock at $10.40 per share pursuant to the terms of the preferred stock. The terms of the Series D Preferred Stock provided for automatic conversion following certain future common stock offerings, and also provided for potential additional payments to the holders depending on the sales price of common stock in the offerings. As a result of the voluntary conversion, the holders are no longer entitled to the potential payments. To induce the holders of the Series D Preferred Stock to voluntarily convert their shares, the Company issued the holders 925,000 shares of a new series of preferred stock, the Series E Preferred Stock.

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

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

Series E Redeemable Convertible Preferred Stock

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

The Series E Preferred Stock ranks senior to the Company's common stock and any other preferred stock issuances and receives preferential cumulative cash dividends at a rate of 6.25% per annum, payable quarterly of the $10.00 face value per share. If the Company fails to pay a dividend then during the period that dividends are not paid, the dividend rate increases to 9.50% per annum. Dividends on the Series E Preferred Stock accrue whether or not the Company has earnings, whether or not there are funds legally available for the payment of such dividends, whether or not such dividends are declared, and whether or not such dividends are prohibited by agreement.

Each share of Series E Preferred Stock is convertible, at the option of the holder, at any time on or after February 28, 2019, into a number of shares of common stock determined by dividing the conversion price of $13.845 into an amount equal to the $10.00 face value per share plus accrued and unpaid dividends, if any. Upon liquidation, each share of Series E Preferred Stock is entitled to $10.00 per share and accrued and unpaid dividends. The conversion price is subject to anti-dilution adjustments upon the occurrence of stock splits and stock dividends. Following a specific equity offering or offerings, from time to time a number of shares of Series E Preferred Stock automatically converts into common stock if the common stock trades at 120% of the conversion price for 60 trading days, and the number of shares converted will be determined by certain trading volumes measures.

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

The Series E Preferred Stock was determined to have a fair value of $9,900 on the date of issuance as measured using a trinomial lattice-based model. From this value, the embedded redemption option (see Note 8), which was determined to be an asset with a fair value on the date of issuance of $150 using the same model, was bifurcated and will be accounted for at fair value at each period end. These are considered Level 3 fair value measurements. The issuance of the Series E Preferred Stock is considered an inducement to convert the Series D Preferred Stock to common stock and as such, its fair value at issuance, plus related expenses totaling $60 and $1,190 in the three and nine months ended September 30, 2017, are reflected as a reduction of retained earnings and an increase in dividends declared and in kind dividends deemed on preferred stock.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Preferred D dividends accrued at stated rate	$ -	$ -	$ -	$ 650
Preferred D inducement to convert	-	60	-	11,090
Preferred E dividends accrued at stated rate	145	145	434	339
Dividends declared and in kind dividends deemed on preferred stock	$ 145	$ 205	$ 434	$ 12,079

NOTE 11. NONCONTROLLING INTEREST IN THE OPERATING PARTNERSHIP

Noncontrolling interest in the operating partnership represents the limited partners' proportionate share of the equity in the operating partnership and long-term incentive plan ("LTIP") units (see Note 12). Earnings and loss are allocated to noncontrolling interest in accordance with the weighted average percentage ownership of the operating partnership during the period.

Our ownership interest in the operating partnership was 99.4% as of September 30, 2018 and 99.3% as of December 31, 2017. At September 30, 2018 and December 31, 2017, 4,009,927 and 4,550,242 common units owned by minority interest holders were outstanding, all of which were held by limited partners. All LTIP units previously outstanding were cancelled on June 28, 2017 (see Note 12). The total redemption value for the common units was $824 and $871 at September 30, 2018 and December 31, 2017, respectively.

Each limited partner of the operating partnership may, subject to certain limitations, require that the operating partnership redeem all or a portion of his or her common units at any time after a specified period following the date the units were acquired, by delivering a redemption notice to the operating partnership. When a limited partner tenders common units for redemption, the Company can, at its sole discretion, choose to purchase the units for either (1) a number of shares of Company common stock at a rate of one share of common stock for each 52 common units redeemed or (2) cash in an amount equal to the market value of the number of shares of Company common stock the limited partner would have received if the Company chose to purchase the units for common stock. During the three months ended September 30, 2018, 800,000 common units were redeemed for cash totaling $160. No other common units were redeemed in any period presented.

NOTE 12. STOCK-BASED COMPENSATION

The Company currently has in place the Condor 2016 Stock Plan, which was approved by the Company's shareholders at the annual shareholders meeting on June 15, 2016. The 2016 Stock Plan authorizes the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, deferred stock units, and other forms of stock-based compensation. The maximum number of shares of the Company's common stock that may be issued under the 2016 Stock Plan is 761,538 following an amendment to the plan to increase the number of available shares by 300,000 that was approved by shareholders on May 17, 2018 at the annual meeting of shareholders. As of September 30, 2018, there were 605,744 common shares available for issuance under the 2016 Stock Plan.

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

Service Condition Share Awards

From time to time, the Company awards restricted shares of common stock to employees, officers, and members of the Board of Directors under the 2016 Stock Plan. These shares generally vest ratably over five years for employees and officers and three years for members of the Board of Directors based on continued service or employment. Dividends paid on these restricted shares during the vesting period are not forfeited in the event that the shares fail to vest. The following table presents a summary of the service condition unvested share activity for the nine months ended September 30, 2018:

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

	Shares		Weighted-average grant date fair value
Unvested at December 31, 2017	95,832	$	10.54
Granted	22,215	$	10.26
Vested	(25,540)	$	10.59
Forfeited	(11,644)	$	10.33
Unvested at September 30, 2018	80,863	$	10.48

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

Market Based Share Awards

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

The compensation cost related to awards that are contingent upon achieving a market based criteria is measured at the fair value of the award on the date of grant using the Monte Carlo simulation, including consideration of the market criteria, and amortized on a straight line basis over the derived performance period which is also estimated using this model. The 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 total grant date fair value of this market based share award, including additional value assessed at the time of subsequent amendment of the award, was $1,380.

Performance Based Share Awards

Pursuant to an amendment of an employment agreement on June 28, 2017, an executive officer may earn shares of common stock if certain operating results of the Company are obtained. Any such shares, if earned, will be issued under the 2016 Stock Plan or another shareholder approved plan. For each of the Company's fiscal years 2017 through 2021, if the Company achieves between 85% and 101% of budgeted Funds from Operations ("FFO") as approved by the Board of Directors, the executive shall earn and be issued between 11,741 and 19,569 shares of common stock, determined on a straight-line basis based on the percentage of budgeted FFO achieved. In addition, for any fiscal year in which the Company achieves in excess of 101% of budgeted FFO, an additional 391 shares of common stock will be earned for each two percent actual FFO exceeds 101% of budgeted FFO, up to a total of 3,910 additional shares of common stock per year.

The fair value of the performance based share awards is based on the closing price of the Company's common stock on the grant date, discounted for estimated common stock dividends to be declared prior to the shares being issued. The grant date occurs on an annual basis when budgeted FFO is approved by the Board of Directors. During the first quarter of 2018, 21,133 shares with a grant date fair value totaling $212 were awarded to the executive based on 2017 FFO. The total grant date fair value of the 2018 portion of this performance based share award, assuming that 100% of budgeted FFO is achieved, was $169.

Warrants

On March 2, 2015, the Company granted a warrant to an executive officer of the Company as an inducement material to the executive's acceptance of employment. The Black-Scholes option pricing model was utilized at issuance for the determination of the fair value of the award. The warrant entitled the executive to purchase a total of 101,213 authorized but previously unissued shares of the Company's common stock at a price of (i) $9.88 per share (the adjusted closing bid price of the common stock on Nasdaq on March 2, 2015) if at least one-third but not more than one-half of the shares were purchased on or prior to March 17, 2015, and (ii) $12.48 per share for shares purchased after that date. The warrant had a three-year term. The executive officer exercised the warrant in part to purchase 35,060 shares on March 11, 2015 at the price of $9.88 per share. The remaining warrant expired unexercised on March 2, 2018.

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

Director Fully Vested Share Compensation

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

A total of 2,418 and 1,242 shares were issued during the three months ended September 30, 2018 and 2017, respectively, and a total of 8,430 and 2,366 shares were issued during the nine months ended September 30, 2018 and 2017, respectively, to independent directors under the 2016 Stock Plan with respect to these fees.

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, 2018 and 2017 was $247 and $508, respectively, and for the nine months ended September 30, 2018 and 2017 was $912 and $665, respectively, all of which is included in general and administrative expense. Total unrecognized compensation cost related to all awards at September 30, 2018 was $1,139, which is expected to be recognized over a weighted-average remaining service period of 3.1 years.

NOTE 13. INCOME TAXES

As of September 30, 2017 and throughout the three and nine months then ended, a full valuation allowance was recorded against the Company's net deferred tax assets due to the uncertainty of realization because of historical operating losses. As such, no income tax expense or benefit was recorded during those periods. During the fourth quarter of 2017, it was determined by management that a valuation allowance against federal and certain state net deferred tax assets was no longer required as management believed that it is more likely than not that remaining deferred tax assets will be realized. Following this release, during the three and nine months ended September 30, 2018, income tax expense totaling $132 and $315, respectively, was recognized primarily related to income earned by the TRS. Management believes the combined federal and state effective income tax rate for the TRS will be approximately 26%.

After consideration of limitations related to a change in control as defined under Code Section 382, the TRS's net operating loss carryforward at September 30, 2018 as determined for federal income tax purposes was $3,885. The availability of the loss carryforwards will expire from 2027 through 2034, with an indefinite carryforward for losses arising after December 31, 2017.

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

NOTE 14. EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Numerator: Basic				
Net earnings (loss) attributable to common shareholders	$ 2,513	$ (1,237)	$ 5,896	$ (10,536)
Less: Allocation to participating securities	(17)	(17)	(52)	(37)
Net earnings (loss) attributable to common shareholders, net of amount allocated to participating securities	$ 2,496	$ (1,254)	$ 5,844	$ (10,573)
Numerator: Diluted				
Net earnings (loss) attributable to common shareholders, net of amount allocated to participating securities	$ 2,496	$ (1,254)	$ 5,844	$ (10,573)
Interest and fair value adjustment on Convertible Debt	15	-	28	-
Total Diluted	$ 2,511	$ (1,254)	$ 5,872	$ (10,573)
Denominator				
Weighted average number of common shares - Basic	11,800,908	11,542,932	11,776,591	8,705,426
Performance Based Share Awards	-	-	5,714	-
Convertible Debt	97,269	-	97,269	-
Weighted average number of common shares - Diluted	11,898,177	11,542,932	11,879,574	8,705,426
Earnings per Share				
Basic Earnings (Loss) per Share	$ 0.21	$ (0.11)	$ 0.50	$ (1.21)
Diluted Earnings (Loss) per Share	$ 0.21	$ (0.11)	$ 0.49	$ (1.21)

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,	
	2018	2017	2018	2017
Outstanding stock options (2)	-	78	-	345
Unvested restricted stock	82,865	87,985	91,398	34,740
Warrants - RES (2)	-	22,657	-	71,673
Warrants - Employees (2)	-	66,153	14,781	66,153
Series D Preferred Stock (2)	-	-	-	1,297,697
Series E Preferred Stock	668,111	668,111	668,111	523,721
Convertible debt	-	97,269	-	97,269
LTIP common units (1) (2)	-	-	-	66,363
Operating partnership common units (1)	91,496	77,907	91,210	65,066
Total potentially dilutive securities excluded from the denominator	842,472	1,020,160	865,500	2,223,027

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

(2) Amounts above are weighted average amounts outstanding for the periods presented. These instruments were no longer outstanding at September 30, 2018.

NOTE 15. COMMITMENTS AND CONTINGENCIES

Management Agreements

Our TRS engages eligible independent contractors as property managers for each of our hotels in accordance with the requirements for qualification as a REIT. The hotel management agreements provide that the management companies have control of all operational aspects of the hotels, including employee-related matters. The management companies must generally maintain each hotel under their management in good repair and condition and perform routine maintenance, repairs, and minor alterations. Additionally, the management companies must operate the hotels in accordance with the national franchise agreements that cover the hotels, which includes, as applicable, using franchisor sales and reservation systems and abiding by 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, 2018 receives a base monthly management fee of 3.0% to 3.5% of hotel revenue, with incentives for performance, which increase such fee to a maximum of 5.0% of hotel revenue. Base management fees totaled $454 and $476, respectively, for the three months ended September 30, 2018 and 2017, and $1,473 and $1,240, respectively, for the nine months ended September 30, 2018 and 2017, all of which was included as hotel and property operations expense. Incentive management fees totaled $29 and $176, respectively, for the three months ended September 30, 2018 and 2017, and $210 and $209, respectively, for the nine months ended September 30, 2018 and 2017.

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, 2018, all of our properties operate under franchise licenses from national hotel companies. Under our franchise agreements, we are required to pay franchise fees generally between 3.3% and 5.5% of room revenue, plus additional fees for marketing, central reservation systems, and other franchisor programs and services that amount to between 2.5% and 6.0% of room revenue. The franchise agreements typically have 10 to 25 year terms although certain agreements may be terminated by either party on certain anniversary dates specified in the agreements. Further, each agreement provides for early termination fees in the event the agreement is terminated before the stated term. Franchise fee expense totaled $1,159 and $1,082 for the three months ended September 30, 2018 and 2017, respectively, and $3,676 and $2,697 for the nine months ended September 30, 2018 and 2017, respectively, and all of which was included as hotel and property operations expense.

Leases

The Company has no land lease agreements in place related to properties owned at September 30, 2018 or during any point in 2018. Land lease expense related to properties previously owned totaled $0 and $9, respectively, for the three and nine months ended September 30, 2017, all of which was included as hotel and property operations expense.

The Company entered into three new office lease agreements in 2016, replacing all existing office lease agreements. These leases expire in 2019 through 2021 and have combined rent expense of approximately $154 annually. Office lease expense totaled $43 and $39 in the three months ended September 30, 2018 and 2017, respectively, and $121 and $116 in the nine months ended September 30, 2018 and 2017, respectively, and is included in general and administrative expense.

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.

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, 2017 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. ("Condor" or the "Company"), a Maryland corporation, 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, 2018, the Company owned 16 hotels, representing 1,967 rooms, in eight states, including one hotel owned through an 80% interest in an unconsolidated joint venture ("Atlanta JV").

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotel properties are owned by our operating partnership, Condor Hospitality Limited Partnership and its subsidiaries (the "operating partnership"), for which we serve as general partner. As of September 30, 2018, we owned approximately 99.4% of the common operating units ("common units") in the operating partnership. In the future, the operating partnership may issue limited partnership interests to third parties from time to time in connection with our acquisition of hotel properties or the raising of capital.

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

Historically, as a result of the geographic areas in which we operate, the operations of our hotels have been seasonal in nature. Generally, occupancy rates, revenue, and operating income have been greater in the second and third quarters of the calendar year than in the first and fourth quarters, with the exception of our hotels located in Florida, which experience peak demand in the first and fourth quarters annually.

Overview

Financial Highlights

Revenue in the three months ended September 30, 2018 totaled $15.5 million, a decrease of 0.6% from the comparable period in 2017. In the same periods, net earnings (loss) attributable to common shareholders increased to $2.5 million, or $0.21 per diluted share, compared to ($1.2 million), ($0.11) per diluted share, in the prior year. Adjusted Funds from Operations (“AFFO”) decreased to $2.2 million, or $0.18 per Diluted Share, a 34% decrease from $3.3 million in prior year, and hotel Earnings Before Interest, Taxes, Depreciation, and Amortization (“EBITDA”) decreased to $6.2 million from $6.3 million, a decrease of 2.0%.

Revenue in the nine months ended September 30, 2018 totaled $50.0 million, an increase of 24.4% from the comparable period in 2017. In the same periods, net earnings (loss) attributable to common shareholders increased to $5.9 million, or $0.49 per diluted share, compared to ($10.5 million), ($1.21) per diluted share, in the prior year. AFFO increased to $9.9 million, or $0.82 per Diluted Share, a 53% increase from $6.5 million in prior year, and hotel EBITDA increased to $21.6 million from $16.0 million, an increase of 34.9%.

Portfolio Activity

The Company’s investment strategy is to assemble a portfolio of premium-branded, select-service hotels in the top 100 Metropolitan Statistical Areas (“MSAs”) with a particular focus on MSAs ranked between 20 to 60. Since restarting its portfolio transformation in 2015, the Company has acquired 14 high-quality select-service hotels representing 1,808 rooms in its target markets for a total purchase price of $276.6 million. Additionally, during this time, the Company has sold 54 legacy assets for a total gross sales price of $165.6 million.

During the third quarter of 2018, the Company sold the Super 8 in Creston, IA for $5.1 million. Net proceeds from the sale were applied to outstanding debt on the Company’s $150 million secured credit facility. The Company has only one legacy hotel remaining in the portfolio which is currently under contract to be sold.

Balance Sheet Activity

As of September 30, 2018, the Company had cash and cash equivalents (including restricted cash) of $11.0 million and available revolver borrowing capacity of $7.6 million. As of September 30, 2018, the Company had total outstanding long-term debt of $138.2 million associated with assets held for use with a weighted average maturity of 2.4 years and a weighted average interest rate of 4.90%.

Dividends

On September 5, 2018, the Board of Directors declared a quarterly cash common stock dividend of $0.195 per share for the third quarter of 2018. The common stock dividend represented an annualized yield of approximately 7.5% based on the closing price of the Company’s common shares on September 7, 2018. The third quarter dividend was paid on October 3, 2018 to shareholders of record as of September 21, 2018.

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, 2018:

New Investment Platform Hotel Portfolio

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

Legacy Hotel Portfolio

Hotel Name	City	State	Rooms	Acquisition Date	Status as of September 30, 2018
Quality Inn [(2)]	Solomons	MD	59	06/01/1986	HFS
Total Rooms			1,967		

(1) This property is owned through an 80% interest in our unconsolidated Atlanta JV.
(2) Asset is currently under contract to be sold.

All of our properties are encumbered by either our credit facility or by mortgage debt at September 30, 2018.

Acquisitions

During the nine months ended September 30, 2018, the Company acquired the following two wholly owned hotel properties (dollars in thousands):

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

(1) All debt was drawn from the credit facility at acquisition.
(2) Total issuance of 259,685 common units. Common units may be redeemed at a rate of one common share for 52 common units.

Dispositions

Consistent with our strategic repositioning, the following hotel sales were executed in the nine months ended September 30, 2018:

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

All net proceeds, after the payment of related expenses, from these dispositions totaled $19.7 million. The net proceeds were used to repay borrowings under the Company's $150.0 million credit facility.

Based on the criteria discussed in the footnotes to the consolidated financial statements, as of September 30, 2018, the Company had one hotel classified as held for sale. At December 31, 2017, the Company had three hotels held for sale and classified one additional property as held for sale during each the first and third quarters of 2018. During the three and nine months ended September 30, 2018, the Company sold one and four hotels, respectively.

Operating Performance Metrics

The following tables present our same-store occupancy, ADR, and RevPAR for all our hotels owned at September 30, 2018, with the exception of the TownePlace Suites Austin, TX (opened on January 3, 2017) and the Home2 Suites Summerville, SC (opened on July 18, 2017), for which there are not comparable prior period results available for all periods presented. Same-store occupancy, ADR, and RevPAR reflect the performance of hotels during the entire period, regardless of our ownership during the period presented. Results for the hotels for periods prior to our ownership were provided to us by prior owners and have not been adjusted by us or audited or reviewed by our independent auditors. The performance metrics for the hotel acquired through our Atlanta JV, also presented below, reflect 100% of the operating results of the property, including our interest and the interest of our partner.

	Three months ended September 30,					
	2018			2017		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Wholly owned new investment platform properties	79.87%	$ 116.00	$ 92.65	80.66%	$ 115.45	$ 93.12
Atlanta Aloft JV	76.16%	$ 147.26	$ 112.16	77.42%	$ 142.37	$ 110.23
Total new investment platform	79.31%	$ 120.51	$ 95.57	80.17%	$ 119.35	$ 95.69
Total legacy held for sale	64.00%	$ 93.05	$ 59.56	80.14%	$ 88.98	$ 71.31
Total Same-Store Portfolio	78.79%	$ 119.74	$ 94.34	80.17%	$ 118.31	$ 94.85

	Nine months ended September 30,					
	2018			2017		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Wholly owned new investment platform properties	81.38%	$ 120.54	$ 98.10	80.38%	$ 119.23	$ 95.84
Atlanta Aloft JV	78.94%	$ 147.26	$ 116.24	81.26%	$ 136.21	$ 110.69
Total new investment platform	81.01%	$ 124.45	$ 100.82	80.51%	$ 121.80	$ 98.06
Total legacy held for sale	54.36%	$ 87.46	$ 47.54	79.44%	$ 80.30	$ 63.80
Total Same-Store Portfolio	80.10%	$ 123.59	$ 99.00	80.48%	$ 120.40	$ 96.89

In the new investment platform hotels, total same-store RevPAR decreased slightly by 0.1% in the third quarter of 2018, driven by a decrease in occupancy of 1.1% which was partially offset by an increase in ADR of 1.0%. For the year-to-date period, new investment platform same-store RevPAR increased by 2.8%, driven by increases in both ADR of 2.2% and occupancy of 0.6%.

For the third quarter, the largest RevPAR changes in new investment platform hotels related to the El Paso Fairfield Inn & Suites (increase of 14.1%) and the Leawood Aloft (decrease of 11.0%). At the El Paso Fairfield Inn & Suites, a significant piece of new group business increased occupancy. The results of the Leawood Aloft were negatively impacted primarily by new supply entering the market and group and project business leaving the market.

For the comparable year-to-date periods, the largest RevPAR changes in new investment platform hotels related to the San Antonio SpringHill Suites (increase of 11.9%), the Lake Mary Hampton Inn (increase of 11.8%), and the Leawood Aloft (decrease of 10.0%). At the San Antonio SpringHill Suites, both occupancy and ADR were up to special events in the market and the increasing strength of the local corporate and group market. At the Lake Mary Hampton Inn, RevPAR increased due to an increase in ADR following the completion of renovations at the property in the second quarter of 2017 and following a restructuring of the rate determination in corporate contracts. As discussed above, the results of the Leawood Aloft were negatively impacted by new supply entering the market and group and project business leaving the market, as well as renovations that were performed in the first quarter of 2018.

Results of Operations

Comparison of the three months ended September 30, 2018 to the three months ended September 30, 2017 (in thousands)

	Three months ended September 30,		
	2018	**2017**	**Variance**
Revenue	$ 15,462	$ 15,562	$ (100)
Hotel and property operations expense	(10,148)	(10,269)	121
Depreciation and amortization expense	(2,423)	(1,993)	(430)
General and administrative expense	(1,599)	(1,702)	103
Acquisition and terminated transactions expense	(96)	(453)	357
Net gain (loss) on disposition of assets	3,716	(46)	3,762
Equity (loss) in earnings of joint venture	(41)	159	(200)
Net gain on derivatives and convertible debt	116	14	102
Other expense, net	(23)	(43)	20
Interest expense	(2,154)	(1,405)	(749)
Impairment loss, net	-	(848)	848
Income tax expense	(132)	(15)	(117)
Net earnings (loss)	$ 2,678	$ (1,039)	$ 3,717

Revenue

Revenue between the periods decreased slightly, by a total of $100, or 0.6%. Revenue from properties acquired during or after the third quarter of 2017 increased by $3,189 during the three months ended September 30, 2018, while revenue decreased between the periods by $3,028 as a result of decreased revenue from held for sale and sold properties. Revenue related to new investment platform properties owned throughout both periods decreased in total by $261 as a result of the changes in RevPAR discussed above.

Operating Expenses and Interest Expense

Hotel and property operations expense also decreased slightly by $121, driven by the decreased revenue as discussed above. Hotel and property operations expenses increased by $2,078 as a result of increased expenses from properties acquired during or after the third quarter of 2017 which were partially offset by decreased expenses from held for sale and sold properties of $2,135 between the periods. In total, hotel and property operations expenses decreased slightly as a percentage of total revenue to 65.6% from 66.0% for the three months ended September 30, 2018 and 2017, respectively.

Depreciation expense increased by $430 between the periods as a result of an increase in the value of the Company's held for use hotel property portfolio between the periods (from $222,434 gross investment at September 30, 2017 to $249,273 gross investment at September 30, 2018), largely due to the two hotel acquisitions completed in 2018. Interest expense also increased by $749 between the periods as a result of increased debt balances (from $128,894 at September 30, 2017 to $139,473 at September 30, 2018) due to the increased size of the Company's hotel portfolio and an increase in the weighted average interest rate on total debt outstanding due to changing market conditions (from 3.96% at September 30, 2017 to 4.90% at September 30, 2018).

General and administrative expense decreased by $103 between the periods largely as a result of decreased professional fees as a result of decreased transactional activity.

Acquisition costs typically consist of transfer taxes, legal fees, and other costs associated with acquiring a hotel property as well as transactions that were terminated during the year and expense incurred pursuing potential acquisitions. Prior to January 1, 2018, hotel acquisition costs were expensed for both completed and potential acquisitions. Beginning on January 1, 2018, with the implementation of Accounting Standards Update ("ASU") No. 2017-01, these costs are capitalized if they relate to completed hotel acquisitions and expensed only when related to potential acquisitions not subsequently pursued or terminated transactions, leading to the period over period decrease in these expenses. See further discussion of ASU No. 2017-01 in Note 1, *Organization and Summary of Significant Accounting Policies*, to our consolidated interim financial statements.

Net Gain (Loss) on Disposition of Assets

During the three months ended September 30, 2018 and 2017, the Company sold one hotel and two hotels, respectively, resulting in total gains of $3,722 and $0, respectively. The net gains (losses) appearing in the financial statements also include net losses on disposals due to repairs, replacements, and other renovations. The two properties sold during the three months ended September 30, 2017 were sold with no gains as these hotels had been previously impaired.

Impairment Loss, net

All impairment losses and recoveries in both periods relate to impairment taken or recovered on properties that are now sold. No such losses were incurred during the three months ended September 30, 2018. In the three months ended September 30, 2017, we incurred a total of $895 of impairment losses on two properties which were partially offset by the recovery of impairment of $80 recognized upon the sale of two hotels.

Income Tax Expense

As of September 30, 2017 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 during that period with the exception of amounts estimated for alternative minimum tax. During the fourth quarter of 2017, it was determined by management that a valuation allowance against federal and certain state net deferred tax assets is no longer required as management believes that it is more likely than not that remaining deferred tax assets will be realized. Following this release, during the three months ended September 30, 2018, income tax expense totaling $132 was recognized primarily on income earned by the TRS at a combined federal and state income tax rate of approximately 26%.

Comparison of the nine months ended September 30, 2018 to the nine months ended September 30, 2017 (in thousands)

	Nine months ended September 30,		
	2018	2017	Variance
Revenue	$ 49,975	$ 40,175	$ 9,800
Hotel and property operations expense	(31,318)	(27,106)	(4,212)
Depreciation and amortization expense	(7,126)	(4,813)	(2,313)
General and administrative expense	(5,073)	(4,705)	(368)
Acquisition and terminated transactions expense	(186)	(1,170)	984
Equity transactions expense	-	(343)	343
Net gain on disposition of assets	5,587	4,803	784
Equity in earnings of joint venture	251	295	(44)
Net gain on derivatives and convertible debt	719	416	303
Other expense, net	(57)	(83)	26
Interest expense	(6,173)	(3,468)	(2,705)
Loss on extinguishment of debt	-	(800)	800
Impairment (loss) recovery, net	93	(1,598)	1,691
Income tax expense	(315)	(50)	(265)
Net earnings	$ 6,377	$ 1,553	$ 4,824

Revenue

Revenue between the periods increased by a total of $9,800, or 24.4%. Revenue from properties acquired after December 31, 2016 increased by $17,290 during the nine months ended September 30, 2018, while revenue decreased between the periods by $7,973 as a result of decreased revenue from held for sale and sold properties. Revenue related to new investment platform properties owned throughout both periods increased in total by $483 as a result of the changes in RevPAR as discussed above.

Operating Expenses and Interest Expense

Hotel and property operations expense increased by $4,212 primarily as a result of increased expenses from properties acquired after December 31, 2016 of $10,183 which were partially offset by decreased expenses from held for sale and sold properties of $5,921 between the periods. In total, hotel and operations expenses decreased as a percentage of total revenue to 62.7% from 67.5% for the nine months ended September 30, 2018 and 2017, respectively. This decrease was both a result of increased ADR in our hotel portfolio and because fewer legacy hotels remain in our portfolio and new investment platform hotels have higher operating margins than the hotels that were sold during and between the periods.

Depreciation expense increased by $2,313 between the periods as a result of an increase in the value of the Company's held for use hotel property portfolio between the periods as previously discussed, largely due to the two hotel acquisitions completed between the end of third quarter of 2017 and the third quarter of 2018, as well as seven additional acquisition that occurred earlier in 2017. Interest expense also increased by $2,705 between the periods as a result of increased debt balances as previously discussed due to the increased size of the Company's hotel portfolio and an increase in the weighted average interest rate on total debt outstanding due to changing market conditions as previously discussed.

General and administrative expense increased by $368 between the periods largely as a result of increased compensation costs primarily related to stock compensation issued to executive officers which was partially offset by decreased professional fees as a result of decreased transactional activity.

Acquisition costs typically consist of transfer taxes, legal fees, and other costs associated with acquiring a hotel property as well as transactions that were terminated during the year and expense incurred pursuing potential acquisitions. Prior to January 1, 2018, hotel acquisition costs were expensed for both completed and potential acquisitions. Beginning on January 1, 2018, with the implementation of Accounting Standards Update ("ASU") No. 2017-01, these costs are capitalized if they relate to completed hotel acquisitions and expensed only when related to potential acquisitions not subsequently pursued or terminated transactions, leading to the period over period decrease in these expenses. See further discussion of ASU No. 2017-01 in Note 1, *Organization and Summary of Significant Accounting Policies,* to our consolidated interim financial statements.

Equity transaction costs totaled $343 in the nine months ended September 30, 2017 as a result of the one-time non-cash expense of $289 associated with the exchange of warrants in the first quarter of 2017 as well as expenses associated with that transaction.

Net Gain on Disposition of Assets

In the nine months ended September 30, 2018 and 2017, four and seven hotels were sold, respectively, resulting in total gains of $5,706 and $5,031, respectively. The net losses appearing in the financial statements include net losses on disposals due to repairs, replacements, and other renovations. One and four of the hotels sold during the nine months ended September 30, 2018 and 2017, respectively, were sold with no gains as these hotels had been previously impaired.

Loss on Extinguishment of Debt

The Company incurred a loss on the extinguishment of debt of $800 in the nine months ended September 30, 2017 as a result of the refinancing of a significant portion of the Company's existing debt with the credit facility during first quarter of 2017. There were no prepayment penalties incurred during the nine months ended September 30, 2018.

Impairment (Loss) Recovery, net

All impairment losses and recoveries in both periods relate to impairment taken or recovered on properties that are now sold. During the nine months ended September 30, 2018, we recognized the recovery of impairment on one asset totaling $93. During the nine months ended September 30, 2017, we recognized impairment losses totaling $1,678 on four properties and recoveries totaling $80 on two properties.

Income Tax Expense

As of September 30, 2017 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 during that period with the exception of amounts estimated for alternative minimum tax. During the fourth quarter of 2017, it was determined by management that a valuation allowance against federal and certain state net deferred tax assets is no longer required as management believes that it is more likely than not that remaining deferred tax assets will be realized. Following this release, during the nine months ended September 30, 2018, income tax expense totaling $315 was recognized primarily on income earned by the TRS at a combined federal and state income tax rate of approximately 26%.

Non-GAAP Financial Measures

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

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 or loss computed in accordance with GAAP, excluding gains or losses from sales of real estate assets, impairment, and the depreciation and amortization of real estate assets. FFO is calculated both for the Company in total and as FFO attributable to common shares and common units, which is FFO reduced by preferred stock dividends. AFFO is FFO attributable to common shares and common units adjusted to exclude items we do not believe are representative of the results from our core operations, including non-cash gains or losses on derivatives and convertible debt, stock-based compensation expense, amortization of certain fees, losses on debt extinguishment, and in-kind dividends above stated rates, and cash charges for acquisition and equity transaction costs. All REITs do not calculate FFO and AFFO in the same manner; therefore, our calculation may not be the same as the calculation of FFO and AFFO for similar REITs.

We consider FFO to be a useful additional measure of performance for an equity REIT because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, we believe that FFO provides a meaningful indication of our performance. We believe that AFFO provides useful supplemental information to investors regarding our ongoing operating performance that, when considered with net earnings and FFO, is beneficial to an investor's understanding of our operating performance.

The following table reconciles net earnings (loss) to FFO and AFFO for the three and nine months ended September 30, 2018 and 2017 (in thousands). All amounts presented include our portion of the results of our unconsolidated Atlanta JV.

	Three months ended September 30,		Nine months ended September 30,	
Reconciliation of Net earnings (loss) to FFO and AFFO	**2018**	**2017**	**2018**	**2017**
Net earnings (loss)	$ 2,678	$ (1,039)	$ 6,377	$ 1,553
Depreciation and amortization expense	2,423	1,993	7,126	4,813
Depreciation and amortization expense from JV	289	284	866	852
Net (gain) loss on disposition of assets	(3,716)	46	(5,587)	(4,803)
Net loss on disposition of assets from JV	15	1	29	4
Impairment loss (recovery), net	-	848	(93)	1,598
FFO	1,689	2,133	8,718	4,017
Dividends declared and in kind dividends deemed on preferred stock	(145)	(205)	(434)	(12,079)
FFO attributable to common shares and common units	1,544	1,928	8,284	(8,062)
Net gain on derivatives and convertible debt	(116)	(14)	(719)	(416)
Net loss on derivative from JV	-	-	-	2
Acquisition and terminated transactions expense	96	453	186	1,170
Equity transactions expense	-	-	-	343
Loss on debt extinguishment	-	-	-	800
Stock-based compensation and LTIP expense	247	508	912	665
Amortization of deferred financing fees	363	310	1,080	726
Amortization of deferred financing fees from JV	45	46	136	136
Non-recurring dividends above stated rates declared and in kind dividends deemed on preferred stock	-	60	-	11,090
AFFO attributable to common shares and common units	$ 2,179	$ 3,291	$ 9,879	$ 6,454

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

We calculate EBITDA, EBITDA*re*, and Adjusted EBITDA*re* by adding back to net earnings or loss certain non-operating expenses and certain non-cash charges which are based on historical cost accounting that we believe may be of limited significance in evaluating current performance. We believe these adjustments can help eliminate the accounting effects of depreciation and amortization and financing decisions and facilitate comparisons of core operating profitability between periods. In calculating EBITDA, we add back to net earnings or loss interest expense, loss on debt extinguishment, income tax expense, and depreciation and amortization expense. NAREIT adopted EBITDA*re* in order to promote an industry-wide measure of REIT operating performance. We adjust EBITDA by adding back net gain/loss on disposition of assets and impairment charges to calculate EBITDA*re.* To calculate Adjusted EBITDA*re*, we adjust EBITDA*re* to add back acquisition and terminated transactions expense and equity transactions expense, which are cash charges. We also add back stock –based compensation expense and gain/loss on derivatives and convertible debt, which are non-cash charges. EBITDA, EBITDA*re*, and Adjusted EBITDA*re*, as presented, may not be comparable to similarly titled measures of other companies.

We believe EBITDA, EBITDA*re*, and Adjusted EBITDA*re* 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*re* to calculate Hotel EBITDA. Hotel EBITDA, as presented, may not be comparable to similarly titled measures of other companies.

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

The following table reconciles net earnings (loss) to EBITDA, EBITDA*re*, Adjusted EBITDA*re*, and Hotel EBITDA for the three and nine months ended September 30, 2018 and 2017 (in thousands). All amounts presented our portion of the results of our unconsolidated Atlanta JV.

Reconciliation of Net earnings (loss) to EBITDA, EBITDA*re*, Adjusted EBITDA*re*, and Hotel EBITDA	**Three months ended September 30, 2018**	**Three months ended September 30, 2017**	**Nine months ended September 30, 2018**	**Nine months ended September 30, 2017**
Net earnings (loss)	$ 2,678	$ (1,039)	$ 6,377	$ 1,553
Interest expense	2,154	1,405	6,173	3,468
Interest expense from JV	543	478	1,553	1,470
Loss on debt extinguishment	-	-	-	800
Income tax expense	132	15	315	50
Depreciation and amortization expense	2,423	1,993	7,126	4,813
Depreciation and amortization expense from JV	289	284	866	852
EBITDA	8,219	3,136	22,410	13,006
Net (gain) loss on disposition of assets	(3,716)	46	(5,587)	(4,803)
Net loss on disposition of assets from JV	15	1	29	4
Impairment loss (recovery), net	-	848	(93)	1,598
EBITDA*re*	4,518	4,031	16,759	9,805
Net gain on derivatives and convertible debt	(116)	(14)	(719)	(416)
Net loss on derivative from JV	-	-	-	2
Stock-based compensation and LTIP expense	247	508	912	665
Acquisition and terminated transactions expense	96	453	186	1,170
Equity transactions expense	-	-	-	343
Adjusted EBITDA*re*	4,745	4,978	17,138	11,569
General and administrative expense, excluding stock compensation and LTIP expense	1,352	1,194	4,161	4,040
Other expense, net	23	43	57	83
Unallocated hotel and property operations expense	81	111	229	308
Hotel EBITDA	$ 6,201	$ 6,326	$ 21,585	$ 16,000
Revenue	$ 15,462	$ 15,562	$ 49,975	$ 40,175
JV revenue	2,485	2,439	7,587	7,279
Condor and JV revenue	$ 17,947	$ 18,001	$ 57,562	$ 47,454
Hotel EBITDA as a percentage of revenue	34.6%	35.1%	37.5%	33.7%

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 credit facility, and the release of restricted cash upon the satisfaction of usage requirements. At September 30, 2018, the Company had $5.2 million of cash and cash equivalents and $5.8 million of restricted cash on hand and $7.6 million of unused availability under its credit facility. Our short-term liquidity requirements consist primarily of operating expenses and other expenditures directly associated with our hotel properties, recurring maintenance and capital expenditures necessary to maintain our hotels in accordance with brand standards, interest expense and scheduled principal payments on outstanding indebtedness, restricted cash funding obligations, and the payment of dividends in accordance with the REIT requirements of the Code and as required in connection with our 6.25% Series E Cumulative Convertible Preferred Stock ("Series E Preferred Stock"). Prior to the consideration of any asset sales or our ability to refinance debt subsequent to September 30, 2018, contractual principal payments on our debt outstanding, which include only normal amortization, total $1.5 million through December 31, 2019. We also presently expect to invest approximately $4.0 million to $5.0 million in capital expenditures related to hotel properties we currently own through December 31, 2019.

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

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

Sources and Uses of Cash

Cash provided by Operating Activities. Our cash provided by operations was $9.2 million and $7.6 million for the nine months ended September 30, 2018 and 2017, respectively. The increase in operating cash flows was the result of an increase in net income, after adjustments for non-cash items, of $4.3 million as well as differences in the changes in operating assets and liabilities between the periods, none of which were individually significant.

Cash used in Investing Activities. Our cash flows used in investing activities were ($16.3) million and ($101.2) million for the nine months ended September 30, 2018 and 2017, respectively. The increase in these cash flows in 2018 was driven by decreased cash spent on hotel acquisitions of $87.1 million, partially offset by a decrease in net proceeds from the sale of hotels of $3.5 million between the periods.

Cash provided by Financing Activities. Our cash flows provided by financing activities were $7.7 million and $90.5 million for the nine months ended September 30, 2018 and 2017, respectively. This decrease was primarily the result of decreased cash flows from equity issuances of $45.6 million, which included the issuance of common stock of $45.9 million in the first quarter of 2017, as well as decreased net cash inflows from debt activities of $37.1 million, resulting primarily from fewer property acquisitions between the periods.

Outstanding Indebtedness

Significant Debt Transactions

Subsequent to December 31, 2017, net proceeds from the Company’s hotel sales were used to pay down a total of $19.1 million on the credit facility, proceeds from the credit facility totaling $34.8 million were used to fund the Company’s acquisitions plus related expenses, and an additional $0.5 million was drawn under the facility for corporate purposes. Available borrowing capacity under the credit facility is based on a borrowing base formula for the pool of hotel properties securing the facility. As of September 30, 2018, the collateral pool consisted of 11 hotel properties and total available borrowing capacity under the credit facility was $7.6 million. At September 30, 2018, $89.5 million was outstanding under the credit facility.

Outstanding Debt

At September 30, 2018, we had long-term debt of $138.2 million associated with assets held for use with a weighted average term to maturity of 2.4 years and a weighted average interest rate of 4.90%. Of this total, at September 30, 2018, $23.8 million was fixed rate debt with a weighted average term to maturity of 2.0 years and a weighted average interest rate of 4.41% and $114.4 million was variable rate debt with a weighted average term to maturity of 3.2 years and a weighted average interest rate of 5.01%. At December 31, 2017, we had long-term debt of $114.3 million associated with assets held for use with a weighted average term to maturity of 3.2 years and a weighted average interest rate of 4.34%. Of this total, at December 31, 2017, $24.3 million was fixed rate debt with a weighted average term to maturity of 2.4 years and a weighted average interest rate of 4.41% and $90.0 million was variable rate debt with a weighted average term to maturity of 4.1 years and a weighted average interest rate of 4.32%.

Debt is classified as held for sale if the properties collateralizing it are held for sale. Debt associated with assets held for sale is classified in the table below based on its contractual maturity although the balances are expected to be repaid within one year upon the sale of the related hotel properties. Aggregate annual principal payments on debt for the remainder of 2018 and thereafter are as follows (in thousands):

	Held for sale	Held for use	Total
Remainder of 2018	$ -	$ 288	$ 288
2019	-	1,183	1,183
2020	1,236	89,482	90,718
2021	-	14,344	14,344
2022	-	24,886	24,886
Thereafter	-	8,054	8,054
Total	$ 1,236	$ 138,237	$ 139,473

Financial Covenants

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

- Leverage Ratio: The ratio of consolidated total indebtedness to consolidated total asset value cannot exceed 60%. Commencing on March 31, 2019, the foregoing leverage ratio will no longer be applicable, and in lieu thereof, the ratio of consolidated total indebtedness to adjusted consolidated EBITDA for the most recently ended four fiscal quarters cannot exceed 6.25 to 1.
- Secured Leverage Ratio: The ratio of consolidated secured indebtedness (excluding the credit facility) to consolidated total asset value cannot exceed 40%.
- Fixed Charge Coverage Ratio: The ratio of adjusted consolidated EBITDA for the most recently ended four fiscal quarters to consolidated fixed charges for the most recently ended four fiscal quarters cannot be less than 1.50 to 1.
- Tangible Net Worth: Consolidated tangible net worth cannot be less than $55 million plus 80% of net offering proceeds.
- Unhedged Variable Rate Debt: Consolidated unhedged variable rate debt cannot exceed 25% of consolidated total asset value.
- Distributions: The Company is permitted to make distributions during any period of four fiscal quarters in an aggregate amount of up to 95% of funds available for distribution.

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

If we fail to pay our indebtedness when due, fail to comply with covenants or otherwise default on our loans, unless waived, we could incur higher interest rates during the period of such loan defaults, be required to immediately pay our indebtedness, and ultimately lose our hotels through lender foreclosure if we are unable to obtain alternative sources of financing with acceptable terms. Our credit facility contains cross-default provisions which would allow the lenders under our credit facility to declare a default and accelerate our indebtedness to them if we default on our other loans and such default would permit that lender to accelerate our indebtedness under any such loan.

As of September 30, 2018, we are not in default of any of our loans.

Contractual Obligations

Below is a summary of our contractual obligations as of September 30, 2018 and the effect such obligations are expected to have on our future liquidity and cash flows (in thousands):

		Payments due by period			
Contractual obligations	**Total**	**Remainder of 2018**	**2019-2020**	**2021-2022**	**2023 and After**
Long-term debt including interest [(1)]	$ 153,701	$ 1,986	$ 100,341	$ 42,715	8,659
Office leases	286	40	199	47	-
Total contractual obligations	$ 153,987	$ 2,026	$ 100,540	$ 42,762	$ 8,659

(1) Interest rate payments on our variable rate debt have been estimated using interest rates in effect at September 30, 2018.

Long-term debt and office lease payments above include only amounts related to properties classified as held for use. Future debt payments, including interest, related to the held for sale property that is expected to be sold within the next 12 months of $1.3 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.

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. 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, 2017 with the exception of the following critical accounting policy that was modified during the first quarter of 2018 upon the adoption of an applicable accounting standard update as issued by the Financial Accounting Standards Board ("FASB").

Investment in Hotel Properties

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

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

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

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

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

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

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

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, 2018, our market risk arises primarily from interest rate risk relating to variable rate borrowings and the market risk related to our convertible debt and the embedded redemption right in the Series E Preferred Stock that fair value will fluctuate following changes in the Company's common stock price or changes in interest rates.

Interest Rate Sensitivity

We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging agreements. At September 30, 2018, we have an interest rate swap in place which effectively locks the variable interest rate on our Wells Fargo debt (September 30, 2018 balance of $26.2 million) at 4.44% and an interest rate cap in place which caps the 30-day LIBOR interest rate on $50.0 million of our credit facility (September 30, 2018 balance of $89.5 million) at 2.5%. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

The table below provides information about financial instruments that are sensitive to changes in interest rates. The table presents scheduled maturities, including the amortization of principal and related weighted-average interest rates for the debt maturing in each specified period, excluding $1.3 million of debt related to hotel properties held for sale (dollars in thousands). For the purposes of this presentation, the Wells Fargo debt is considered fixed rate debt as the variable interest rate is effectively locked with the previously discussed interest rate swap.

	2018	2019	2020	2021	2022	Thereafter	Total
Fixed rate debt	$ 288	$ 1,183	$ 1,232	$ 14,344	$ 24,886	$ 8,054	$ 49,987
Average fixed interest rate	4.40 %	4.40 %	4.40 %	4.34 %	4.44 %	4.54 %	4.42 %
Variable rate debt	$ -	$ -	$ 88,250	$ -	$ -	$ -	$ 88,250
Average variable interest rate	-%	-%	5.16 %	-%	-%	-%	5.16 %
Total debt	$ 288	$ 1,183	$ 89,482	$ 14,344	$ 24,886	$ 8,054	$ 138,237
Total average interest rate	4.40 %	4.40 %	5.15 %	4.34 %	4.44 %	4.54 %	4.89 %

At September 30, 2018, approximately 36.2% 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 63.8% of our debt is subject to floating rates. Assuming no increase in the level of our variable debt outstanding at September 30, 2018 and after giving effect to our interest rate swap, if interest rates increased by 1.0% our cash flow related to hotel properties held for use would decrease by approximately $0.9 million per year.

ITEM 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, 2018, 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

The following risk factor is added to the risk factors previously disclosed in the *Risk Factors* section of our Annual Report on Form 10-K for the year ended December 31, 2017.

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

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

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

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

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

31.1*	Section 302 Certificate of Chief Executive Office
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, 2018, 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 13, 2018

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

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

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Section 2: 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, 2018 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 13, 2018

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

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Section 3: 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, 2018 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 13, 2018

/s/ Jonathan Gantt

Jonathan Gantt
Chief Financial Officer

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Section 4: 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, 2018 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 13, 2018

/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, 2018 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 13, 2018

/s/ Jonathan Gantt
Jonathan Gantt
Chief Financial Officer

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