

Section 1: 10-Q (FORM 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 **June 30, 2016**

SOTHERLY HOTELS INC.

(Exact name of registrant as specified in its charter)

MARYLAND
(State or Other Jurisdiction of
Incorporation or Organization)

001-32379
(Commission
File Number)

20-1531029
(I.R.S. Employer
Identification No.)

SOTHERLY HOTELS LP

(Exact name of registrant as specified in its charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

001-36091
(Commission
File Number)

20-1965427
(I.R.S. Employer
Identification No.)

**410 West Francis Street
Williamsburg, Virginia 23185
(757) 229-5648**

(Address and Telephone Number of Principal Executive Offices)

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.

Sotherly Hotels Inc. Yes No **Sotherly Hotels LP** Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Sotherly Hotels Inc. Yes No **Sotherly Hotels LP** Yes No

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

Sotherly Hotels Inc.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>

Sotherly Hotels LP

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Sotherly Hotels Inc. Yes No **Sotherly Hotels LP** Yes No

As of August 10, 2016, there were 14,949,651 shares of Sotherly Hotels Inc.'s common stock issued and outstanding.

EXPLANATORY NOTE

We refer to Sotherly Hotels Inc. as the “Company,” Sotherly Hotels LP as the “Operating Partnership,” and the Company’s common stock as “Common Stock.” References to “we” and “our” mean the Company, its Operating Partnership and its subsidiaries and predecessors, collectively, unless the context otherwise requires or where otherwise indicated.

The Company conducts virtually all of its activities through the Operating Partnership and is its sole general partner. The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2016 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

- combined reports better reflect how management and investors view the business as a single operating unit;
- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Consolidated Financial Statements;
- the following Notes to Consolidated Financial Statements:
 - Note 6 – Equity; and
 - Note 12 – Income Per Share and Per Unit;
- Item 4 - Controls and Procedures; and
- Item 6 - Certifications of CEO and CFO Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act.

**SOTHERLY HOTELS INC.
SOTHERLY HOTELS LP**

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PART I

Item 1. Consolidated Financial Statements

SOTHERLY HOTELS INC.
CONSOLIDATED BALANCE SHEETS

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
	(unaudited)	
ASSETS		
Investment in hotel properties, net	\$ 355,968,880	\$ 354,963,242
Cash and cash equivalents	26,085,488	11,493,914
Restricted cash	4,484,016	5,793,840
Accounts receivable, net	4,064,322	4,071,175
Accounts receivable-affiliate	210,618	226,552
Loan proceeds receivable	—	2,600,711
Prepaid expenses, inventory and other assets	5,039,136	4,432,432
Deferred income taxes	5,397,989	5,390,374
TOTAL ASSETS	\$ 401,250,449	\$ 388,972,240
LIABILITIES		
Mortgage loans, net	\$ 279,454,808	\$ 270,331,724
Unsecured notes, net	50,830,408	50,460,106
Accounts payable and accrued expenses	14,605,689	12,334,879
Advance deposits	2,197,892	1,651,840
Dividends and distributions payable	1,505,501	1,335,323
TOTAL LIABILITIES	\$ 348,594,298	\$ 336,113,872
Commitments and contingencies (See Note 5)	—	—
EQUITY		
Sotherly Hotels Inc. stockholders' equity		
Preferred stock, par value \$0.01, 972,350 shares authorized, 0 shares issued and outstanding	—	—
Common stock, par value \$0.01, 49,000,000 shares authorized, 14,949,651 shares and 14,490,714 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	149,496	144,907
Additional paid in capital	83,796,667	82,749,058
Distributions in excess of retained earnings	(34,262,825)	(33,890,834)
Total Sotherly Hotels Inc. stockholders' equity	49,683,338	49,003,131
Noncontrolling interest	2,972,813	3,855,237
TOTAL EQUITY	52,656,151	52,858,368
TOTAL LIABILITIES AND OWNERS' EQUITY	\$ 401,250,449	\$ 388,972,240

The accompanying notes are an integral part of these consolidated financial statements.

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended <u>June 30, 2016</u>	Three Months Ended <u>June 30, 2015</u>	Six Months Ended <u>June 30, 2016</u>	Six Months Ended <u>June 30, 2015</u>
REVENUE				
Rooms department	\$ 29,909,287	\$ 26,351,371	\$ 57,231,700	\$ 47,687,785
Food and beverage department	9,578,410	8,605,316	17,828,089	16,332,123
Other operating departments	2,337,257	1,908,421	4,575,309	3,820,830
Total revenue	41,824,954	36,865,108	79,635,098	67,840,738
EXPENSES				
Hotel operating expenses				
Rooms department	7,599,209	6,498,077	14,679,842	12,341,017
Food and beverage department	6,490,681	5,700,236	12,430,542	11,105,621
Other operating departments	644,430	362,987	1,238,399	701,166
Indirect	14,613,064	12,332,869	28,748,658	23,801,212
Total hotel operating expenses	29,347,384	24,894,169	57,097,441	47,949,016
Depreciation and amortization	3,801,478	3,304,906	7,470,115	6,209,297
Corporate general and administrative	1,356,754	1,490,380	2,964,048	2,941,604
Total operating expenses	34,505,616	29,689,455	67,531,604	57,099,917
NET OPERATING INCOME	7,319,338	7,175,653	12,103,494	10,740,821
Other income (expense)				
Interest expense	(4,613,165)	(3,840,435)	(9,245,797)	(7,614,970)
Interest income	10,207	15,308	19,038	25,409
Equity income in joint venture	—	24,368	—	498,717
Loss on early debt extinguishment	(70,293)	(698,083)	(70,293)	(698,083)
Loss on disposal of assets	(140,193)	—	(140,193)	—
Unrealized loss on hedging activities	(15,517)	—	(66,074)	—
Gain on involuntary conversion of asset	—	37,833	—	37,833
Net income before income taxes	2,490,377	2,714,644	2,600,175	2,989,727
Income tax provision	(512,827)	(955,535)	(76,747)	(516,760)
Net income	1,977,550	1,759,109	2,523,428	2,472,967
Less: Net income attributable to the noncontrolling interest	(216,444)	(327,999)	(279,223)	(466,523)
Net income attributable to the Company	\$ 1,761,106	\$ 1,431,110	\$ 2,244,205	\$ 2,006,444
Net income per share attributable to the Company				
Basic and diluted	\$ 0.12	\$ 0.13	\$ 0.15	\$ 0.19
Weighted average number of shares outstanding				
Basic and diluted	14,949,651	10,768,730	14,871,281	10,682,743

The accompanying notes are an integral part of these consolidated financial statements.

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<u>Common Stock</u>		<u>Additional Paid- In Capital</u>	<u>Distributions in Excess of Retained Earnings</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>				
Balances at December 31, 2015	14,490,714	\$ 144,907	\$82,749,058	\$ (33,890,834)	\$ 3,855,237	\$ 52,858,368
Net income	—	—	—	2,244,205	279,223	2,523,428
Issuance of unrestricted common stock awards	24,250	242	128,040	—	—	128,282
Issuance of restricted common stock awards	12,000	120	63,360	—	—	63,480
Conversion of Operating Partnership units into shares of common stock	422,687	4,227	846,249	—	(850,476)	—
Amortization of restricted stock award	—	—	9,960	—	—	9,960
Dividends and distributions declared	—	—	—	(2,616,196)	(311,171)	(2,927,367)
Balances at June 30, 2016 (unaudited)	<u>14,949,651</u>	<u>\$ 149,496</u>	<u>\$83,796,667</u>	<u>\$ (34,262,825)</u>	<u>\$ 2,972,813</u>	<u>\$ 52,656,151</u>

The accompanying notes are an integral part of these consolidated financial statements.

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities:		
Net income	\$ 2,523,428	\$ 2,472,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,470,115	6,209,297
Equity income in joint venture	—	(498,717)
Amortization of deferred financing costs	626,807	686,249
Amortization of mortgage premium	(12,958)	—
Unrealized loss on derivative instrument	66,074	—
Loss on disposal of assets	140,193	—
Loss on early debt extinguishment	70,293	698,083
Charges related to equity-based compensation	201,722	276,016
Changes in assets and liabilities:		
Restricted cash	37,066	(417,603)
Accounts receivable	6,853	(2,294,576)
Prepaid expenses, inventory and other assets	(712,835)	(467,358)
Deferred income taxes	(7,615)	408,804
Accounts payable and other accrued liabilities	2,522,235	1,844,024
Advance deposits	546,052	408,191
Accounts receivable - affiliate	15,934	40,734
Net cash provided by operating activities	13,493,364	9,366,111
Cash flows from investing activities:		
Improvements and additions to hotel properties	(8,827,313)	(10,702,570)
Distributions from joint venture	—	600,000
Funding of restricted cash reserves	(4,272,057)	(3,715,397)
Proceeds from involuntary conversion of assets	—	37,833
Proceeds of restricted cash reserves	5,544,815	3,937,582
Net cash used in investing activities	(7,554,555)	(9,842,552)
Cash flows from financing activities:		
Proceeds of mortgage debt	28,453,664	47,000,000
Proceeds from mortgage loan receivable	2,600,711	—
Proceeds from sale of common stock	—	682,210
Payments on mortgage debt and loans	(19,100,406)	(43,856,730)
Payment of deferred financing costs	(544,015)	(934,897)
Dividends and distributions paid	(2,757,189)	(1,773,965)
Net cash provided by financing activities	8,652,765	1,116,618
Net increase in cash and cash equivalents	14,591,574	640,177
Cash and cash equivalents at the beginning of the period	11,493,914	16,634,499
Cash and cash equivalents at the end of the period	\$ 26,085,488	\$ 17,274,676
Supplemental disclosures:		
Cash paid during the period for interest	\$ 8,071,068	\$ 6,019,832
Cash paid during the period for income taxes	\$ 59,490	\$ 97,200
Non-cash investing and financing activities:		
Change in amount of hotel property improvements in accounts payable and accrued liabilities	\$ 251,422	\$ 633,167

The accompanying notes are an integral part of these consolidated financial statements.

SOTHERLY HOTELS LP
CONSOLIDATED BALANCE SHEETS

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
	<u>(unaudited)</u>	
ASSETS		
Investment in hotel properties, net	\$ 355,968,880	\$ 354,963,242
Cash and cash equivalents	26,085,488	11,493,914
Restricted cash	4,484,016	5,793,840
Accounts receivable, net	4,064,322	4,071,175
Accounts receivable-affiliate	210,618	226,552
Loan proceeds receivable	—	2,600,711
Prepaid expenses, inventory and other assets	5,039,136	4,432,432
Deferred income taxes	5,397,989	5,390,374
TOTAL ASSETS	<u>\$ 401,250,449</u>	<u>\$ 388,972,240</u>
LIABILITIES		
Mortgage loans, net	\$ 279,454,808	\$ 270,331,724
Unsecured notes, net	50,830,408	50,460,106
Accounts payable and other accrued liabilities	14,605,689	12,334,879
Advance deposits	2,197,892	1,651,840
Dividends and distributions payable	1,505,501	1,335,323
TOTAL LIABILITIES	<u>\$ 348,594,298</u>	<u>\$ 336,113,872</u>
Commitments and contingencies (see Note 5)	—	—
PARTNERS' CAPITAL		
General Partner: 167,278 and 166,915 units issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	772,305	774,295
Limited Partners: 16,560,513 and 16,524,626 units issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	51,883,846	52,084,073
TOTAL PARTNERS' CAPITAL	<u>52,656,151</u>	<u>52,858,368</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 401,250,449</u>	<u>\$ 388,972,240</u>

The accompanying notes are an integral part of these consolidated financial statements.

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
REVENUE				
Rooms department	\$ 29,909,287	\$ 26,351,371	\$ 57,231,700	\$ 47,687,785
Food and beverage department	9,578,410	8,605,316	17,828,089	16,332,123
Other operating departments	2,337,257	1,908,421	4,575,309	3,820,830
Total revenue	41,824,954	36,865,108	79,635,098	67,840,738
EXPENSES				
Hotel operating expenses				
Rooms department	7,599,209	6,498,077	14,679,842	12,341,017
Food and beverage department	6,490,681	5,700,236	12,430,542	11,105,621
Other operating departments	644,430	362,987	1,238,399	701,166
Indirect	14,613,064	12,332,869	28,748,658	23,801,212
Total hotel operating expenses	29,347,384	24,894,169	57,097,441	47,949,016
Depreciation and amortization	3,801,478	3,304,906	7,470,115	6,209,297
Corporate general and administrative	1,356,754	1,490,380	2,964,048	2,941,604
Total operating expenses	34,505,616	29,689,455	67,531,604	57,099,917
NET OPERATING INCOME	7,319,338	7,175,653	12,103,494	10,740,821
Other income (expense)				
Interest expense	(4,613,165)	(3,840,435)	(9,245,797)	(7,614,970)
Interest income	10,207	15,308	19,038	25,409
Equity income in joint venture	—	24,368	—	498,717
Loss on early debt extinguishment	(70,293)	(698,083)	(70,293)	(698,083)
Loss on disposal of assets	(140,193)	—	(140,193)	—
Unrealized loss on hedging activities	(15,517)	—	(66,074)	—
Gain on involuntary conversion of asset	—	37,833	—	37,833
Net income before income taxes	2,490,377	2,714,644	2,600,175	2,989,727
Income tax provision	(512,827)	(955,535)	(76,747)	(516,760)
Net income	\$ 1,977,550	\$ 1,759,109	\$ 2,523,428	\$ 2,472,967
Net income per unit				
Basic and diluted	\$ 0.12	\$ 0.13	\$ 0.15	\$ 0.19
Weighted average number of units outstanding				
Basic and diluted	16,727,791	13,052,524	16,721,417	13,099,316

The accompanying notes are an integral part of these consolidated financial statements.

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL

	<u>General Partner</u>		<u>Limited Partner</u>		<u>Total</u>
	<u>Units</u>	<u>Amount</u>	<u>Units</u>	<u>Amounts</u>	
Balances at December 31, 2015	166,915	\$ 774,295	16,524,626	\$52,084,073	\$52,858,368
Issuance of partnership units	363	1,918	35,887	189,844	191,762
Amortization of restricted units award	—	100	—	9,860	9,960
Distributions declared	—	(29,242)	—	(2,898,125)	(2,927,367)
Net income	—	25,234	—	2,498,194	2,523,428
Balances at June 30, 2016 (unaudited)	<u>167,278</u>	<u>\$ 772,305</u>	<u>16,560,513</u>	<u>\$51,883,846</u>	<u>\$52,656,151</u>

The accompanying notes are an integral part of these consolidated financial statements.

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities:		
Net income	\$ 2,523,428	\$ 2,472,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,470,115	6,209,297
Equity income in joint venture	—	(498,717)
Amortization of deferred financing costs	626,807	686,249
Amortization of mortgage premium	(12,958)	—
Unrealized loss on derivative instrument	66,074	—
Loss on disposal of assets	140,193	—
Loss on early debt extinguishment	70,293	698,083
Charges related to equity-based compensation	201,722	276,016
Changes in assets and liabilities:		
Restricted cash	37,066	(417,603)
Accounts receivable	6,853	(2,294,576)
Prepaid expenses, inventory and other assets	(712,835)	(467,358)
Deferred income taxes	(7,615)	408,804
Accounts payable and other accrued liabilities	2,522,235	1,844,024
Advance deposits	546,052	408,191
Accounts receivable - affiliate	15,934	40,734
Net cash provided by operating activities	13,493,364	9,366,111
Cash flows from investing activities:		
Improvements and additions to hotel properties	(8,827,313)	(10,702,570)
Distributions from joint venture	—	600,000
Funding of restricted cash reserves	(4,272,057)	(3,715,397)
Proceeds from involuntary conversion of assets	—	37,833
Proceeds of restricted cash reserves	5,544,815	3,937,582
Net cash used in investing activities	(7,554,555)	(9,842,552)
Cash flows from financing activities:		
Proceeds of mortgage debt	28,453,664	47,000,000
Proceeds from mortgage loan receivable	2,600,711	—
Proceeds from sale of common stock	—	682,210
Payments on mortgage debt and loans	(19,100,406)	(43,856,730)
Payment of deferred financing costs	(544,015)	(934,897)
Distributions paid	(2,757,189)	(1,773,965)
Net cash provided by financing activities	8,652,765	1,116,618
Net increase in cash and cash equivalents	14,591,574	640,177
Cash and cash equivalents at the beginning of the period	11,493,914	16,634,499
Cash and cash equivalents at the end of the period	\$ 26,085,488	\$ 17,274,676
Supplemental disclosures:		
Cash paid during the period for interest	\$ 8,071,068	\$ 6,019,832
Cash paid during the period for income taxes	\$ 59,490	\$ 97,200
Non-cash investing and financing activities:		
Change in amount of hotel property improvements in accounts payable and accrued liabilities	\$ 251,422	\$ 633,167

The accompanying notes are an integral part of these consolidated financial statements.

SOTHERLY HOTELS INC.
SOTHERLY HOTELS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Description of Business

Sotherly Hotels Inc., formerly MHI Hospitality Corporation (the “Company”), is a self-managed and self-administered lodging real estate investment trust (“REIT”) that was incorporated in Maryland on August 20, 2004 to own full-service, primarily upscale and upper-upscale hotels located in primary and secondary markets in the mid-Atlantic and southern United States. Currently, the Company is focused on the acquisition, renovation, upbranding and repositioning of upscale to upper-upscale full-service hotels in the southern United States. The Company’s portfolio consists of investments in twelve hotel properties, comprising 3,011 rooms. All of the Company’s hotels, except for The Georgian Terrace and The Whitehall, operate under the Hilton, Crowne Plaza, DoubleTree, and Sheraton brands.

The Company commenced operations on December 21, 2004 when it completed its initial public offering and thereafter consummated the acquisition of six hotel properties (the “initial properties”). Substantially all of the Company’s assets are held by, and all of its operations are conducted through, Sotherly Hotels LP, formerly MHI Hospitality, L.P. (the “Operating Partnership”).

Pursuant to the terms of the Amended and Restated Agreement of Limited Partnership (the “Partnership Agreement”) of the Operating Partnership, the Company, as general partner, is not entitled to compensation for its services to the Operating Partnership. The Company’s administrative expenses are the obligations of the Operating Partnership. Additionally, the Company is entitled to reimbursement for any expenditure incurred by it on the Operating Partnership’s behalf.

For the Company to qualify as a REIT, it cannot operate hotels. Therefore, the Operating Partnership, which, at June 30, 2016, was approximately 89.4% owned by the Company, and its subsidiaries, lease the hotels to a subsidiary of MHI Hospitality TRS Holding, Inc., MHI Hospitality TRS, LLC, (collectively, “MHI TRS”), a wholly-owned subsidiary of the Operating Partnership. MHI TRS then engages an eligible independent hotel management company, MHI Hotels Services, LLC, which does business as Chesapeake Hospitality (“Chesapeake Hospitality”), to operate the hotels under a management contract. MHI TRS is treated as a taxable REIT subsidiary for federal income tax purposes.

All references in this report to “we”, “us” and “our” refer to the Company, its Operating Partnership and its subsidiaries and predecessors, collectively, unless the context otherwise requires or where otherwise indicated.

Significant transactions occurring during the current and prior fiscal year include the following:

On May 5, 2015, the Company obtained a \$47.0 million mortgage with Bank of America N.A. on The Georgian Terrace in Atlanta, Georgia. The mortgage bears interest at a fixed rate of 4.42% and provides for level payments of principal and interest on a monthly basis under a 30-year amortization schedule. The maturity date is June 1, 2025. The Company used the proceeds of the mortgage to repay the existing first mortgage and to pay closing costs, and will use the balance of the proceeds to partially fund ongoing renovations at The Georgian Terrace and for general corporate purposes.

During June 2015, the Company sold 98,682 shares of common stock for net proceeds of approximately \$0.7 million, which it contributed to the Operating Partnership for an equivalent number of units.

On July 1, 2015, the Company sold 3,000,000 shares of common stock for net proceeds of approximately \$19.8 million, which it contributed to the Operating Partnership for an equivalent number of units.

On July 7, 2015, we entered into a loan agreement and other loan documents to secure an \$18.5 million mortgage with Bank of the Ozarks collateralized by a first mortgage on the DoubleTree by Hilton Jacksonville Riverfront. The \$18.5 million mortgage was received in two parts. We received \$18.0 million on July 7, 2015 and the remainder of \$0.5 million on October 20, 2015. The \$0.5 million was included with the additional earn-out provision of \$1.5 million, for a total of \$2.0 million additional proceeds, as described below. The mortgage term is four years maturing July 7, 2019 and may be extended for one additional period of one year, subject to certain criteria. The mortgage bears a floating interest rate of the 30-day LIBOR plus 3.5%, subject to a floor rate of 4.0%. The mortgage amortizes on a 25-year schedule; and has a prepayment penalty if prepaid during the initial two years. The Company used the proceeds from the mortgage to repay the existing first mortgage on the DoubleTree by Hilton Jacksonville Riverfront, to pay closing costs, to partially fund ongoing renovations at the DoubleTree by Hilton Jacksonville Riverfront and for general corporate purposes.

On July 17, 2015, the Company sold 435,000 shares of common stock for net proceeds of approximately \$2.8 million, which it contributed to the Operating Partnership for an equivalent number of units.

On July 31, 2015, we acquired the remaining 75% interest in (i) the entity that owns the Crowne Plaza Hollywood Beach Resort, and (ii) the entity that leases the Crowne Plaza Hollywood Beach Resort. As a result, the Operating Partnership now has a 100% indirect ownership interest in the entities that own the Crowne Plaza Hollywood Beach Resort.

On September 2, 2015, we closed on the sale of a 0.3 acre parcel of excess land adjacent to our Atlanta, Georgia property for \$2.2 million. The parcel was included in the acquisition of The Georgian Terrace in March 2014. We used the proceeds of the sale for general corporate purposes.

On September 28, 2015, we entered into a loan agreement to secure a \$60.0 million mortgage on the Crowne Plaza Hollywood Beach Resort with Bank of America, N.A. The mortgage term is ten years maturing October 1, 2025, subject to certain criteria. The mortgage bears a fixed interest rate of 4.913%. The mortgage amortizes on a 30-year schedule. The Company used the proceeds from the mortgage to repay the existing first mortgage on the Crowne Plaza Hollywood Beach Resort and to pay closing costs, and will use the balance of the proceeds for general corporate purposes.

On October 20, 2015, we secured \$2.0 million additional proceeds on the mortgage loan on the DoubleTree by Hilton Jacksonville Riverfront as part of an earn-out pursuant to the terms of the loan agreement.

On December 31, 2015, we entered into an amendment to the existing mortgage loan on the DoubleTree by Hilton Laurel which generated additional net proceeds of approximately \$2.6 million and received the loan proceeds on January 4, 2016.

On March 21, 2016, we entered into an agreement with the existing lender to extend the maturity of the mortgage on The Whitehall until November 2017.

On June 27, 2016, the Company entered into a promissory note and other loan documents to secure a \$35.0 million mortgage on the Hilton Savannah DeSoto with MONY Life Insurance Company. The mortgage term is ten years maturing July 1, 2026, subject to certain criteria. The mortgage bears a fixed interest rate of 4.25%. The mortgage amortizes on a 25-year schedule after a 1-year interest-only period. The Company used the proceeds to repay the existing first mortgage on the Hilton Savannah DeSoto and to pay closing costs, and will use the balance of the proceeds to fund ongoing renovations at the hotel and for general corporate purposes.

On June 30, 2016, the Company entered into a loan agreement and other loan documents, including a guaranty of payment by the Operating Partnership, to secure a \$19.0 million mortgage on the Crowne Plaza Tampa Westshore with Fifth Third Bank. The mortgage term has an initial term of three years, and may be extended for two additional periods of one year each, subject to certain conditions. The mortgage bears a floating interest rate of the 30-day LIBOR plus 3.75%, subject to a floor rate of 3.75%. The mortgage amortizes on a 25-year schedule. The Company used the proceeds to repay the existing first mortgage on the Crowne Plaza Tampa Westshore and to pay closing costs, and will use the balance of the proceeds for general corporate purposes.

2. Summary of Significant Accounting Policies

Basis of Presentation – The consolidated financial statements of the Company presented herein include all of the accounts of Sotherly Hotels Inc., the Operating Partnership, MHI TRS and subsidiaries. All significant inter-company balances and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The consolidated financial statements of the Operating Partnership presented herein include all of the accounts of Sotherly Hotels LP, MHI TRS and subsidiaries. All significant inter-company balances and transactions have been eliminated. Additionally, all administrative expenses of the Company and those expenditures made by the Company on behalf of the Operating Partnership are reflected as the administrative expenses, expenditures and obligations thereto of the Operating Partnership, pursuant to the terms of the Partnership Agreement.

Investment in Hotel Properties – Investments in hotel properties include investments in operating properties which are recorded at acquisition cost and allocated to land, property and equipment and identifiable intangible assets. Replacements and improvements are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of a fixed asset, the cost and related accumulated depreciation are removed from our accounts and any resulting gain or loss is included in the statements of operations. Expenditures under a renovation project which constitute additions or improvements that extend the life of the property are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 7 to 39 years for buildings and building improvements and 3 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets.

We review our investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are found to be less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value would be recorded and an impairment loss recognized.

At December 31, 2015, our review of possible impairment at one of our hotel properties revealed an excess of current carrying cost over the estimated undiscounted future cash flows, which was triggered by a combination of a change in anticipated use and future branding of the property and a re-evaluation of future revenues based on anticipated market conditions, market penetration and costs necessary to achieve such market penetration, resulting in an impairment of approximately \$0.5 million.

Assets Held For Sale – The Company records assets as held for sale when management has committed to a plan to sell the assets, actively seeks a buyer for the assets, and the consummation of the sale is considered probable and is expected within one year.

Cash and Cash Equivalents – We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk – We hold cash accounts at several institutions in excess of the Federal Deposit Insurance Corporation (the “FDIC”) protection limits of \$250,000. Our exposure to credit loss in the event of the failure of these institutions is represented by the difference between the FDIC protection limit and the total amounts on deposit. Management monitors, on a regular basis, the financial condition of the financial institutions along with the balances there on deposit to minimize our potential risk.

Restricted Cash – Restricted cash includes real estate tax escrows, insurance escrows and reserves for replacements of furniture, fixtures and equipment pursuant to certain requirements in our various mortgage agreements.

Accounts Receivable – Accounts receivable consists primarily of hotel guest and banqueting receivables. Ongoing evaluations of collectability are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Inventories – Inventories, consisting primarily of food and beverages, are stated at the lower of cost or market, with cost determined on a method that approximates first-in, first-out basis.

Franchise License Fees – Fees expended to obtain or renew a franchise license are amortized over the life of the license or renewal. The unamortized franchise fees as of June 30, 2016 and December 31, 2015 were \$313,377 and \$339,542, respectively. Amortization expense for the three month periods ended June 30, 2016 and 2015 totaled \$13,083 and \$12,750, respectively, and for the six month periods ended June 30, 2016 and 2015 totaled \$30,262 and \$25,500, respectively.

Deferred Financing and Offering Costs – Deferred financing costs are recorded at cost and consist of loan fees and other costs incurred in issuing debt and are reflected in mortgage loans, net on the consolidated balance sheets. Deferred offering costs are recorded at cost and consist of offering fees and other costs incurred in issuing equity and are reflected in prepaid expenses, inventory and other assets on the consolidated balance sheets. Amortization of deferred financing costs is computed using a method that approximates the effective interest method over the term of the related debt and is included in interest expense in the consolidated statements of operations.

Amortization of deferred offering costs occurs when the equity offering is complete, whereby the costs are offset against the equity funds raised in the future and included in additional paid in capital on the consolidated balance sheets, or if the offering expires and the offering costs exceed the funds raised in the offering then the excess will be included in corporate general and administrative expenses in the consolidated statements of operations.

Derivative Instruments – Our derivative instruments are reflected as assets or liabilities on the balance sheet and measured at fair value. Derivative instruments used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as an interest rate risk, are considered fair value hedges. Derivative instruments used to hedge exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For a

derivative instrument designated as a cash flow hedge, the change in fair value each period is reported in accumulated other comprehensive income in stockholders' equity and partners' capital to the extent the hedge is effective. For a derivative instrument designated as a fair value hedge, the change in fair value each period is reported in earnings along with the change in fair value of the hedged item attributable to the risk being hedged. For a derivative instrument that does not qualify for hedge accounting or is not designated as a hedge, the change in fair value each period is reported in earnings.

We use derivative instruments to add stability to interest expense and to manage our exposure to interest-rate movements. To accomplish this objective, we primarily are using an interest rate cap which acts as a cash flow hedge. We value our interest-rate cap at fair value, which we define 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 (exit price). We also have used derivative instruments in the Company's stock to obtain more favorable terms on our financing. We do not enter into contracts to purchase or sell derivative instruments for speculative trading purposes.

Fair Value Measurements –

We classify the inputs used to measure fair value into the following hierarchy:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 Unobservable inputs for the asset or liability.

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table represents our investment in hotel property, net, interest rate cap, mortgage loans and unsecured notes measured at fair value and the basis for that measurement:

	Level 1	Level 2	Level 3
December 31, 2015			
Investment in hotel property, net ⁽¹⁾	\$ —	\$ —	\$ 5,700,000
Interest Rate Cap ⁽⁴⁾	\$ —	\$ 70,981	\$ —
Mortgage loans ⁽²⁾	\$ —	\$(272,933,327)	\$ —
Unsecured notes ⁽³⁾	\$ (54,238,600)	\$ —	\$ —
June 30, 2016			
Interest Rate Cap ⁽⁴⁾	\$ —	\$ 4,907	\$ —
Mortgage loans ⁽²⁾	\$ —	\$(281,062,225)	\$ —
Unsecured notes ⁽³⁾	\$ (53,902,800)	\$ —	\$ —

- (1) A non-recurring fair value measurement was conducted in 2015 for our investment in hotel property, which resulted in impairment charges for the year ended December 31, 2015, which represent the amount by which the carrying value of the asset group exceeded its fair value.
- (2) Mortgage loans are reflected at outstanding principal balance net of deferred financing costs on our Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015.
- (3) Unsecured notes are recorded at outstanding principal balance on our Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015.
- (4) Interest rate cap for our loan on DoubleTree by Hilton Jacksonville Riverfront, which caps the 1-month LIBOR rate at 2.5%.

Noncontrolling Interest in Operating Partnership – Certain hotel properties have been acquired, in part, by the Operating Partnership through the issuance of limited partnership units of the Operating Partnership. The noncontrolling interest in the Operating Partnership is: (i) increased or decreased by the limited partners' pro-rata share of the Operating Partnership's net income or net loss, respectively; (ii) decreased by distributions; (iii) decreased by redemption of partnership units for the Company's common stock; and (iv) adjusted to equal the net equity of the Operating Partnership multiplied by the limited partners' ownership percentage immediately after each issuance of units of the Operating Partnership and/or the Company's common stock through an adjustment to additional paid-in capital. Net income or net loss is allocated to the noncontrolling interest in the Operating Partnership based on the weighted average percentage ownership throughout the period.

Revenue Recognition – Revenues from operations of the hotels are recognized when the services are provided. Revenues consist of room sales, food and beverage sales, and other hotel department revenues, such as telephone, parking, gift shop sales and rentals

from restaurant tenants, rooftop leases and gift shop operators. Revenues are reported net of occupancy and other taxes collected from customers and remitted to governmental authorities.

Lease Revenue – Several of our properties generate revenue from leasing commercial space adjacent to the hotel, the restaurant space within the hotel, apartment units and space on the roofs of our hotels for antennas and satellite dishes. We account for the lease income as revenue from other operating departments within the statement of operations pursuant to the terms of each lease. Lease revenue was approximately \$0.4 million and \$0.4 million, for the three months ended June 30, 2016 and 2015, respectively, and approximately \$0.9 million and \$0.9 million, for the six months ended June 30, 2016 and 2015, respectively.

A schedule of minimum future lease payments receivable for the remaining lease periods is as follows:

Remaining six months ending December 31, 2016	\$	730,416
December 31, 2017		941,311
December 31, 2018		430,164
December 31, 2019		313,578
December 31, 2020		273,939
December 31, 2021 and thereafter		1,252,315
Total	\$	<u>3,941,723</u>

Income Taxes – The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. As a REIT, the Company generally will not be subject to federal income tax. MHI TRS, our wholly owned taxable REIT subsidiary which leases our hotels from subsidiaries of the Operating Partnership, is subject to federal and state income taxes.

We account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. As of June 30, 2016 and December 31, 2015, we had no uncertain tax positions. Our policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2016, the tax years that remain subject to examination by the major tax jurisdictions to which the Company is subject generally include 2010 through 2015. In addition, as of June 30, 2016, the tax years that remain subject to examination by the major tax jurisdictions to which MHI TRS is subject generally include 2004 through 2015.

The Operating Partnership is generally not subject to federal and state income taxes as the unit holders of the Partnership are subject to tax on their respective shares of the Partnership's taxable income.

Stock-based Compensation – The Company's 2004 Long Term Incentive Plan (the "2004 Plan") and its 2013 Long-Term Incentive Plan (the "2013 Plan"), which the Company's stockholders approved in April 2013, permit the grant of stock options, restricted stock and performance share compensation awards to its employees for up to 350,000 and 750,000 shares of common stock, respectively. The Company believes that such awards better align the interests of its employees with those of its stockholders.

Under the 2004 Plan, the Company has made restricted stock and deferred stock awards totaling 337,438 shares including 255,938 shares issued to certain executives and employees and 81,500 restricted shares issued to its independent directors. Of the 255,938 shares issued to certain of our executives and employees, all have vested except 12,000 shares issued to the Chief Financial Officer upon execution of his employment contract which will vest pro rata on each of the next two anniversaries of the effective date of his employment agreement. All of the 81,500 restricted shares issued to the Company's independent directors have vested. The 2004 Plan was terminated in 2013.

Under the 2013 Plan, the Company has made stock awards totaling 109,100 shares, including 72,350 non-restricted shares to certain executives and employees and 35,500 restricted shares issued to its independent directors. All awards have vested except for 12,000 shares issued to the Company's independent directors in January 2016, which will vest on December 31, 2016.

Previously, under the 2004 Plan, and currently, under the 2013 Plan, the Company may issue a variety of performance-based stock awards, including nonqualified stock options. The value of the awards is charged to compensation expense on a straight-line basis over the vesting or service period based on the value of the award as determined by the Company's stock price on the date of grant or issuance. As of June 30, 2016, no performance-based stock awards have been granted. Consequently, stock-based compensation as determined under the fair-value method would be the same under the intrinsic-value method. Total compensation cost recognized under the 2004 and 2013 Plans for the six months ended June 30, 2016 and 2015 was \$201,722 and \$276,016, respectively.

Advertising – Advertising costs were \$120,996 and \$56,799 for the three months ended June 30, 2016 and 2015, respectively, and were \$195,059 and \$109,655 for the six months ended June 30, 2016 and 2015, respectively. Advertising costs are expensed as incurred.

Comprehensive Income – Comprehensive income as defined, includes all changes in equity during a period from non-owner sources. We do not have any items of comprehensive income other than net income.

Segment Information – We have determined that our business is conducted in one reportable segment: hotel ownership.

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications in the amount of \$4.1 million, from deferred financing costs, net in total assets on the consolidating balance sheet, have been netted against mortgage loans and unsecured debt on the December 31, 2015 balances to conform to the current period presentation. This presentation applies Accounting Standards Update (“ASU”) 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” Loss on early debt extinguishments in the amount of \$698,083 has been reclassified from amortization of deferred financing costs on the consolidated statements of cash flows as of June 30, 2015 to conform to the current period presentation.

New Accounting Pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. The Company is currently assessing the impact that the adoption of this standard will have on the balance sheets and statements of operations.

In April 2015, the FASB issued ASU 2015-03 related to “Simplifying the Presentation of Debt Issuance Costs,” as part of its simplification initiative. The ASU changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The ASU specifies that “issue costs shall be reported in the balance sheet as a direct deduction from the face amount of the note” and that “amortization of debt issue costs shall also be reported as interest expense.” According to the ASU’s Basis for Conclusions, debt issuance costs incurred before the associated funding is received (i.e., the debt liability) should be reported on the balance sheet as deferred charges until that debt liability amount is recorded. For public business entities, the guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and is applicable for our interim periods within 2016. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period is adjusted). We adopted this ASU and it is being applied during our 2016 reporting.

In February 2015, the FASB issued ASU 2015-02 related to ASC Topic 810, *Consolidation*. The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: 1. Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; 2. Eliminate the presumption that a general partner should consolidate a limited partnership; 3. Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; 4. Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. This guidance will be effective for annual reporting periods beginning after December 15, 2015. We do not expect this ASU to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09 related to ASC Topic 606, *Revenue from Contracts with Customers*. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The guidance in this update supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of Topic 360, *Property, Plant, and Equipment*, and intangible assets within the scope of Topic 350, *Intangibles—Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement

(including the constraint on revenue) in this update. As issued, this ASU is not effective until annual reporting periods beginning after December 15, 2016, however the FASB has deferred the effective date of ASU 2014-09 such that it would be effective for annual reporting periods beginning after December 15, 2017. We do not expect this ASU to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

3. Investment in Hotel Properties, Net

Investment in hotel properties, net as of June 30, 2016 and December 31, 2015 consisted of the following:

	June 30, 2016	December 31, 2015
Land and land improvements	\$ 58,824,117	\$ 59,910,212
Buildings and improvements	340,426,239	333,720,421
Furniture, fixtures and equipment	44,370,717	42,245,334
	443,621,073	435,875,967
Less: accumulated depreciation and impairment	(87,652,193)	(80,912,725)
Investment in Hotel Properties, Net	\$ 355,968,880	\$ 354,963,242

4. Debt

Mortgage Loans, Net. As of June 30, 2016 and December 31, 2015, we had approximately \$279.5 million and approximately \$270.3 million of outstanding mortgage debt, respectively. The following table sets forth our mortgage debt obligations on our hotels.

Property	Balance Outstanding as of		Prepayment Penalties	Maturity Date	Amortization Provisions	Interest Rate
	June 30, 2016	December 31, 2015				
Crowne Plaza Hampton Marina ⁽¹⁾	\$ 3,015,000	\$ 3,512,586	None	9/30/2016	\$ 83,000	5.00%
Crowne Plaza Hollywood Beach Resort ⁽²⁾	59,438,585	59,795,743	n/a	10/1/2025	30 years	4.913%
Crowne Plaza Tampa Westshore ⁽³⁾	15,700,000	13,016,045	None	6/30/2019	25 years	LIBOR plus 3.75 %
DoubleTree by Hilton Jacksonville Riverfront ⁽⁴⁾	19,573,953	19,774,577	Yes	7/7/2019	25 years	LIBOR plus 3.50 %
DoubleTree by Hilton Laurel ⁽⁵⁾	9,422,713	9,500,000	Yes	8/5/2021	25 years	5.25%
DoubleTree by Hilton Philadelphia Airport ⁽⁶⁾	31,864,469	32,376,795	None	4/1/2019	25 years	LIBOR plus 3.00 %
DoubleTree by Hilton Raleigh Brownstone –University ⁽⁷⁾	14,923,284	15,029,121	n/a	8/1/2018	30 years	4.78%
The Georgian Terrace ⁽⁸⁾	46,266,531	46,579,011	n/a	6/1/2025	30 years	4.42%
Hilton Savannah DeSoto ⁽⁹⁾	30,000,000	20,522,836	Yes	7/1/2026	25 years	4.25%
Hilton Wilmington Riverside ⁽¹⁰⁾	19,530,632	19,825,772	Yes	4/1/2017	25 years	6.21%
Sheraton Louisville Riverside ⁽¹¹⁾	11,221,725	11,345,866	n/a	1/6/2017	25 years	6.24%
The Whitehall ⁽¹²⁾	20,204,267	20,459,256	None	11/13/2017	25 years	4.50%
Total Mortgage Principal Balance	\$ 281,161,159	\$ 271,737,608				
Deferred financing costs, net	(1,933,729)	(1,646,220)				
Unamortized premium on loan	227,378	240,336				
Total Mortgage Loans, Net	\$ 279,454,808	\$ 270,331,724				

- (1) The note was extended in May 2016 for three months until September 30, 2016 and the Operating Partnership is required to make monthly principal payments of \$83,000. The note rate was changed to a fixed rate of 5.00%, effective June 27, 2014.
- (2) With limited exception, the note may not be prepaid until June 2025.
- (3) The note provides that the mortgage can be extended for two additional periods of one year each, subject to certain conditions. The note bears a minimum interest rate of 3.75%.
- (4) The note is subject to a pre-payment penalty until July 2017. Prepayment can be made without penalty thereafter. The note provides that the mortgage can be extended until July 2020 if certain conditions have been satisfied.
- (5) The note is subject to a pre-payment penalty except for any pre-payments made either between April 2017 and August 2017, or from April 2021 through maturity of the note. The note provides that after five years, the rate of interest will adjust to a rate of 3.00% per annum plus the then-current five-year U.S. Treasury rate of interest, with a floor of 5.25%.
- (6) The note bears a minimum interest rate of 3.50%.
- (7) With limited exception, the note may not be prepaid until two months before maturity.
- (8) With limited exception, the note may not be prepaid until February 2025.

- (9) The note is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.
- (10) The note may not be prepaid during the first six years of the term. Prepayment can be made with penalty thereafter until 90 days before maturity.
- (11) With limited exception, the note may not be prepaid until two months before maturity.
- (12) The note was extended in March 2016 and provides that the mortgage can be extended until November 2018 if certain conditions have been satisfied.

As of June 30, 2016, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans, with the exception of The Whitehall mortgage. At June 30, 2016, we failed to meet the Debt Service Coverage Ratio (“DSCR”) covenant. We are currently in discussions with the existing lender to modify the loan with an extension of the maturity date, a reduction of the principal amount of approximately \$3.0 million, and a reduced monthly payment. We expect that the modification will include a waiver through June 30, 2016 with regard to the DSCR. Notwithstanding the modification discussions, the existing loan agreement contains a balancing provision that allows us to either pay down the principal balance of the loan or offer cash collateral sufficient to meet the DSCR requirement.

Total future mortgage debt maturities, without respect to any extension of loan maturity, as of June 30, 2016 were as follows:

For the remaining six months ended December 31, 2016	\$ 5,739,421
December 31, 2017	54,568,469
December 31, 2018	19,245,160
December 31, 2019	47,496,881
December 31, 2020	20,725,204
December 31, 2021 and thereafter	133,386,024
Total future maturities	<u>\$ 281,161,159</u>

7.0% Unsecured Notes. On November 21, 2014, the Operating Partnership issued 7.0% senior unsecured notes in the aggregate amount of \$25.3 million (the “7% Notes”). The indenture requires quarterly payments of interest and matures on November 15, 2019. The 7% Notes are callable after November 15, 2017 at 101% of face value.

8.0% Unsecured Notes. On September 30, 2013, the Operating Partnership issued 8.0% senior unsecured notes in the aggregate amount of \$27.6 million (the “8% Notes”). The indenture requires quarterly payments of interest and matures on September 30, 2018. The 8% Notes are callable after September 30, 2016 at 101% of face value.

5. Commitments and Contingencies

Ground, Building and Submerged Land Leases – We lease 2,086 square feet of commercial space next to the Hilton Savannah DeSoto for use as an office, retail or conference space, or for any related or ancillary purposes for the hotel and/or atrium space. In December 2007, we signed an amendment to the lease to include rights to the outdoor esplanade adjacent to the leased commercial space. The areas are leased under a six-year operating lease, which expired October 31, 2006 and has been renewed for the second of three optional five-year renewal periods expiring October 31, 2011, October 31, 2016 and October 31, 2021, respectively. Rent expense for this operating lease for the three months ended June 30, 2016 and 2015 totaled \$18,246 and \$15,866, respectively and for the six months ended June 30, 2016 and 2015, totaled \$36,491 and \$31,734, respectively.

We lease, as landlord, the entire fourteenth floor of the Savannah hotel property to The Chatham Club, Inc. under a ninety-nine year lease expiring July 31, 2086. This lease was assumed upon the purchase of the building under the terms and conditions agreed to by the previous owner of the property. No rental income is recognized under the terms of this lease as the original lump sum rent payment of \$990 was received by the previous owner and not prorated over the life of the lease.

We lease a parking lot adjacent to the DoubleTree by Hilton Brownstone-University in Raleigh, North Carolina. The land is leased under a second amendment, dated April 28, 1998, to a ground lease originally dated May 25, 1966. The original lease is a 50-year operating lease, which expires August 31, 2016. We exercised a renewal option for the first of three additional ten-year periods expiring August 31, 2026, August 31, 2036, and August 31, 2046, respectively. We hold an exclusive and irrevocable option to purchase the leased land at fair market value at August 1, 2018, or at the end of any 10-year renewal period, subject to the payment of an annual fee of \$9,000, and other conditions. Rent expense for the three and six months ended June 30, 2016 and 2015, each totaled \$23,871 and \$47,741, respectively.

We lease land adjacent to the Crowne Plaza Tampa Westshore for use as parking under a five-year agreement with the Florida Department of Transportation that commenced in July 2009. In May 2014, we extended the agreement for an additional five years.

The agreement expires in July 2019. The agreement requires annual payments of \$2,432, plus tax, and may be renewed for an additional five years. Rent expense for the three and six months ended June 30, 2016 and 2015, each totaled \$651 and \$1,301, respectively.

We lease certain submerged land in the Saint Johns River in front of the Crowne Plaza Jacksonville Riverfront from the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida. The submerged land was leased under a five-year operating lease requiring annual payments of \$4,961, which expired September 18, 2012. A new operating lease was executed requiring annual payments of \$6,020 and expires September 18, 2017. Rent expense for the three and six months ended June 30, 2016 and 2015, each totaled \$1,505 and \$3,010, respectively.

We lease 5,216 square feet of commercial office space in Williamsburg, Virginia under an agreement, as amended, that commenced September 1, 2009 and expires August 31, 2018. Rent expense for the three months ended June 30, 2016 and 2015 totaled \$22,552 and \$22,222 and for the six months ended June 30, 2016 and 2015 totaled \$45,899 and \$41,369, respectively.

We also lease certain furniture and equipment under financing arrangements expiring between October 2017 and March 2019.

A schedule of minimum future lease payments for the following twelve-month periods is as follows:

For the remaining six months ended December 31, 2016	\$ 138,374
December 31, 2017	227,390
December 31, 2018	176,740
December 31, 2019	100,480
December 31, 2020	95,482
December 31, 2021 and thereafter	541,065
Total	\$ 1,279,531

Employment Agreements - The Company has entered into various employment contracts with employees that could result in obligations to the Company in the event of a change in control or termination without cause.

Management Agreements - At June 30, 2016, each of our wholly-owned operating hotels was operated under a management agreement with Chesapeake Hospitality. Effective January 1, 2015, each of our wholly-owned hotels operated under a new master agreement as well as an individual hotel management agreement (see Note 7). Each of the individual hotel management agreements may be terminated earlier than the stated term upon the sale of the hotel covered by the respective management agreement, in which case we may incur early termination fees.

Franchise Agreements - As of June 30, 2016, most of our hotels operate under franchise licenses from national hotel companies. Under the franchise agreements, we are required to pay a franchise fee generally between 2.5% and 5.0% of room revenues, 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 revenues from the hotels. The franchise agreements expire between July 2017 and September 2025. Each of our franchise agreements provides for early termination fees in the event the agreement is terminated before the stated term.

Restricted Cash Reserves - Each month, we are required to escrow with the lenders on the Hilton Wilmington Riverside, the Hilton Savannah DeSoto, the DoubleTree by Hilton Brownstone-University, the Sheraton Louisville Riverside and The Georgian Terrace an amount equal to 1/12th of the annual real estate taxes due for the properties. We are also required by several of our lenders to establish individual property improvement funds to cover the cost of replacing capital assets at our properties. Each month, those contributions equal 4.0% of gross revenues for the Hilton Savannah DeSoto, the Hilton Wilmington Riverside, the Sheraton Louisville Riverside, DoubleTree by Hilton Raleigh Brownstone-University, The Whitehall, Crowne Plaza Hampton Marina and The Georgian Terrace and equal 4.0% of room revenues for the DoubleTree by Hilton Philadelphia Airport.

Litigation - To our knowledge, we are not involved in any material litigation threatened against us. We are involved in routine litigation arising out of the ordinary course of business, all of which we expect to be covered by insurance and we believe it is not reasonably possible such matters will have a material adverse impact on our financial condition or results of operations or cash flows.

6. Equity

Preferred Stock - The Company has authorized 1,000,000 shares of preferred stock, of which 27,650 shares were issued as Series A Cumulative Redeemable Preferred Stock, and subsequently redeemed and retired in 2013. None of the remaining authorized shares have been issued.

Common Stock – The Company is authorized to issue up to 49,000,000 shares of common stock, \$0.01 par value per share. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders of the Company's common stock are entitled to receive distributions when authorized by the Company's board of directors out of assets legally available for the payment of distributions.

The following is a schedule of issuances, since January 1, 2015, of the Company's common stock:

On February 2, 2016, the Company was issued 36,250 units in the Operating Partnership and awarded an aggregate of 22,000 shares of unrestricted stock to certain executives and employees as well as 12,000 shares of restricted stock and 2,250 shares of unrestricted stock to certain of its independent directors.

On February 1, 2016, two holders of units in the Operating Partnership redeemed 422,687 units for an equivalent number of shares of the Company's common stock.

On September 16, 2015, one holder of units in the Operating Partnership redeemed a total of 200,000 units for an equivalent number of shares of the Company's common stock.

On July 17, 2015, the Company sold 435,000 shares of common stock for net proceeds of approximately \$2.8 million, which it contributed to the Operating Partnership for an equivalent number of units.

On July 1, 2015, the Company sold 3,000,000 shares of common stock, for net proceeds of approximately \$19.8 million, which it contributed to the Operating Partnership for an equivalent number of units.

During June 2015, the Company sold 98,682 shares of common stock for net proceeds of approximately \$0.7 million, which it contributed to the Operating Partnership for an equivalent number of units.

On May 1, 2015, one holder of units in the Operating Partnership redeemed a total of 50,000 units for an equivalent number of shares of the Company's common stock.

On April 1, 2015, one holder of units in the Operating Partnership redeemed 100,000 units for an equivalent number of shares of the Company's common stock.

On January 29, 2015, the Company was issued 36,100 units in the Operating Partnership and awarded an aggregate of 26,350 shares of unrestricted stock to certain executives and employees as well as 9,750 shares of restricted stock to certain of its independent directors.

As of June 30, 2016 and December 31, 2015, the Company had 14,949,651 and 14,490,714 shares of common stock outstanding, respectively.

Operating Partnership Units – Holders of Operating Partnership units, other than the Company as general partner, have certain redemption rights, which enable them to cause the Operating Partnership to redeem their units in exchange for shares of the Company's common stock on a one-for-one basis or, at the option of the Company, cash per unit equal to the average of the market price of the Company's common stock for the 10 trading days immediately preceding the notice date of such redemption. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or the stockholders of the Company.

There were no issuances or redemptions, since January 1, 2015, of units in the Operating Partnership other than the issuances of units in the Operating Partnership to the Company described above.

As of June 30, 2016 and December 31, 2015, the total number of Operating Partnership units outstanding was 16,727,791 and 16,691,541, respectively.

As of June 30, 2016 and December 31, 2015, the total number of outstanding Operating Partnership units not owned by the Company was 1,778,140 and 2,200,827, respectively, with a fair market value of approximately \$9.1 million and \$15.0 million, based on the price per share of the common stock on such respective dates.

7. Related Party Transactions

Chesapeake Hospitality. As of June 30, 2016, the members of Chesapeake Hospitality (a company that is majority-owned and controlled by the Company's chief executive officer, its former chief financial officer, a member of its Board of Directors and a former member of its Board of Directors) owned 1,760,001 shares, approximately 11.8%, of the Company's outstanding common stock as well as 870,271 Operating Partnership units. The indirect equity owners of Chesapeake Hospitality include the Company's chief executive officer, Andrew M. Sims, and a member of the Company's board of directors, Kim E. Sims. The following is a summary of the transactions between Chesapeake Hospitality and us:

Accounts Receivable – At June 30, 2016 and December 31, 2015, there were no receivables due, respectively, from Chesapeake Hospitality.

Management Agreements – On December 15, 2014, we entered into a new master agreement and a series of individual hotel management agreements that became effective on January 1, 2015. The master agreement has a five-year term, but may be extended for such additional periods as long as an individual management agreement remains in effect. The base management fee for The Whitehall and The Georgian Terrace will remain at 2.00% through 2015, increases to 2.25% in 2016 and increases to 2.50% thereafter. The base management fees for the remaining properties in the current portfolio will be 2.65% through 2017 and decreases to 2.50% thereafter. For new individual hotel management agreements, Chesapeake Hospitality will receive a base management fee of 2.00% of gross revenues for the first full year from the commencement date through the anniversary date, 2.25% of gross revenues the second full year, and 2.50% of gross revenues for every year thereafter. On July 31, 2015, we entered into a new management agreement for the management of the Crowne Plaza Hollywood Beach Resort, with a base management fee of 2.00% for the first full year from the commencement date through the anniversary date, 2.25% for the second full year, and 2.50% for every year thereafter.

Base management and administrative fees earned by Chesapeake Hospitality for our wholly owned properties totaled \$1,050,008 and \$1,982,394 for the three and six months ended June 30, 2016 and \$912,540 and \$1,666,437 for the three and six months ended June 30, 2015, respectively. In addition, estimated incentive management fees of \$33,305 and \$47,002 were accrued for the three and six months ended June 30, 2016 and \$59,460 and \$94,808 were accrued for the three and six months ended June 30, 2015, respectively.

Employee Medical Benefits – We purchase employee medical benefits through Maryland Hospitality, Inc. (d/b/a MHI Health), an affiliate of Chesapeake Hospitality for our employees as well as those employees that are employed by Chesapeake Hospitality that work exclusively for our hotel properties. Gross premiums for employee medical benefits paid by the Company (before offset of employee co-payments) were approximately \$1,219,458 and \$2,252,602 for the three and six months ended June 30, 2016 and were approximately \$1,123,117 and \$2,241,674 for the three and six months ended June 30, 2015, respectively.

Crowne Plaza Hollywood Beach Resort JV. Since July 31, 2015, we own 100% of the Crowne Plaza Hollywood Beach Resort, which is no longer considered a related party and has a new management agreement as of July 31, 2015. However, through July 30, 2015 we owned a 25.0% indirect interest in (i) the entity that owns the Crowne Plaza Hollywood Beach Resort and (ii) the entity that leases the hotel and has engaged Chesapeake Hospitality to operate the hotel under a management contract. The following is a summary of the transactions between Crowne Plaza Hollywood Beach Resort and us:

Management Agreement – Crowne Plaza Hollywood Beach Resort was operated by Chesapeake Hospitality under a management agreement that was set to expire August 2017. Under this agreement Chesapeake Hospitality received a base management fee of 3.0% of gross revenues. Base management fees earned by Chesapeake Hospitality totaled \$146,869 and \$358,128 for the three and six months ended June 30, 2015.

Asset Management Fee – Also, under an asset management agreement that terminated on July 31, 2015, MHI Hospitality TRS II, LLC, an indirect subsidiary of the Company, received a fee of 1.50% of total revenue which was due on a quarterly basis for services rendered. Asset management fees totaled \$73,435 and \$179,064 for the three and six months ended June 30, 2015.

Sotherly Foundation – During 2015, the Company loaned \$180,000 to the Sotherly Foundation, a non-profit organization to benefit wounded warriors. As of June 30, 2016 and December 31, 2015, the balance of the loan was \$80,000 and \$160,000, respectively.

Others. On June 24, 2013 we hired Ashley S. Kirkland, the daughter of our Chief Executive Officer as a legal analyst and Robert E. Kirkland IV, her husband, as our compliance officer. On October 2, 2014, we hired Andrew M. Sims Jr., the son of our Chief Executive Officer, as a brand manager. Compensation for the three months ended June 30, 2016 and 2015 totaled approximately \$81,110 and \$67,596, respectively, and for the six months ended June 30 2016 and 2015 totaled approximately \$164,848 and \$133,840, respectively, for the three individuals.

During the three month period ending June 30, 2016 and 2015, the Company reimbursed \$40,966 and \$25,302, respectively, and during the six month period ending June 30 2016 and 2015 the Company reimbursed \$69,768 and \$25,302, respectively, to a partnership controlled by the Chief Executive Officer for business-related air travel pursuant to the Company's travel reimbursement policy.

8. Retirement Plan

We maintain a 401(k) plan for qualified employees which is subject to "safe harbor" provisions and which requires that we match 100.0% of the first 3.0% of employee contributions and 50.0% of the next 2.0% of employee contributions. All employer matching funds vest immediately in accordance with the "safe harbor" provision. Contributions to the plan totaled \$21,257 and \$45,945 for the three and six months ended June 30, 2016 and totaled \$14,934 and \$27,610 for the three and six months ended June 30, 2015, respectively.

9. Unconsolidated Joint Venture

As of June 30, 2016 and December 31, 2015, we own 100% of the Crowne Plaza Hollywood Beach Resort and it is consolidated within the financial statements presented. However through July 30, 2015 we owned only a 25.0% indirect interest in (i) the entity that owns the Crowne Plaza Hollywood Beach Resort and (ii) the entity that leases the hotel and has engaged Chesapeake Hospitality to operate the hotel under a management contract. Affiliates of both Carlyle Realty Partners V, L.P. and The Carlyle Group ("Carlyle") owned a 75.0% indirect controlling interest in these entities through July 30, 2015. The joint venture purchased the property on August 8, 2007 and began operations on September 18, 2007. Summarized financial information for this investment for the three and six month periods June 30, 2015, which is accounted for under the equity method, is as follows:

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
	(unaudited)	(unaudited)
Revenue		
Rooms department	\$ 3,777,455	\$ 9,521,784
Food and beverage department	801,452	1,672,739
Other operating departments	316,738	743,081
Total revenue	4,895,645	11,937,604
Expenses		
Hotel operating expenses		
Rooms department	856,768	1,809,365
Food and beverage department	618,440	1,256,169
Other operating departments	153,988	320,897
Indirect	1,981,234	4,150,980
Total hotel operating expenses	3,610,430	7,537,411
Depreciation and amortization	444,403	888,979
General and administrative	88,806	215,951
Total operating expenses	4,143,639	8,642,341
Operating income	752,006	3,295,263
Interest expense	(654,534)	(1,300,394)
Net income	\$ 97,472	\$ 1,994,869

10. Indirect Hotel Operating Expenses

Indirect hotel operating expenses consists of the following expenses incurred by the hotels:

	Three Months Ended <u>June 30, 2016</u> (unaudited)	Three Months Ended <u>June 30, 2015</u> (unaudited)	Six Months Ended <u>June 30, 2016</u> (unaudited)	Six Months Ended <u>June 30, 2015</u> (unaudited)
General and administrative	\$ 3,120,334	\$ 2,762,342	\$ 6,262,877	\$ 5,336,446
Sales and marketing	3,579,688	2,877,233	2,047,146	5,522,296
Repairs and maintenance	1,894,659	1,650,878	7,090,718	3,257,548
Utilities	1,518,805	1,419,032	2,208,979	2,841,811
Franchise fees	1,121,058	1,122,728	3,749,279	2,007,492
Management fees, including incentive	1,101,063	912,540	3,047,767	1,761,246
Property taxes	1,531,882	479,948	1,365,670	1,023,333
Insurance	671,468	977,617	2,825,237	1,930,258
Other	74,107	130,551	150,985	120,782
Total indirect hotel operating expenses	<u>\$ 14,613,064</u>	<u>\$ 12,332,869</u>	<u>\$ 28,748,658</u>	<u>\$ 23,801,212</u>

11. Income Taxes

The components of the income tax benefit for the three and six months ended June 30, 2016 and 2015 are as follows:

	Three Months Ended <u>June 30, 2016</u> (unaudited)	Three Months Ended <u>June 30, 2015</u> (unaudited)	Six Months Ended <u>June 30, 2016</u> (unaudited)	Six Months Ended <u>June 30, 2015</u> (unaudited)
Current:				
Federal	\$ —	\$ —	\$ —	\$ —
State	32,973	50,277	84,362	107,956
	<u>32,973</u>	<u>50,277</u>	<u>84,362</u>	<u>107,956</u>
Deferred:				
Federal	403,357	775,255	8,133	350,096
State	76,497	130,003	(15,748)	58,708
	<u>479,854</u>	<u>905,258</u>	<u>(7,615)</u>	<u>408,804</u>
	<u>\$ 512,827</u>	<u>\$ 955,535</u>	<u>\$ 76,747</u>	<u>\$ 516,760</u>

A reconciliation of the statutory federal income tax benefit to the Company's income tax benefit is as follows:

	Three Months Ended <u>June 30, 2016</u> (unaudited)	Three Months Ended <u>June 30, 2015</u> (unaudited)	Six Months Ended <u>June 30, 2016</u> (unaudited)	Six Months Ended <u>June 30, 2015</u> (unaudited)
Statutory federal income tax expense	\$ 846,728	\$ 922,979	\$ 884,057	\$ 1,016,507
Effect of non-taxable REIT income	(224,433)	(147,724)	(738,696)	(666,411)
State income tax benefit	(109,468)	180,280	(68,614)	166,664
	<u>\$ 512,827</u>	<u>\$ 955,535</u>	<u>\$ 76,747</u>	<u>\$ 516,760</u>

As of June 30, 2016 and December 31, 2015, we had a net deferred tax asset of approximately \$5.4 million and \$5.4 million, respectively, of which, approximately \$4.5 million and \$4.5 million, respectively, are due to accumulated net operating losses. These loss carryforwards will begin to expire in 2028 if not utilized by such time. As of both June 30, 2016 and December 31, 2015, approximately \$0.2 million of the net deferred tax asset is attributable to our share of start-up expenses related to the Crowne Plaza Hollywood Beach Resort, start-up expenses related to the opening of the Sheraton Louisville Riverside and the Crowne Plaza Tampa Westshore that were not deductible in the year incurred, but are being amortized over 15 years. The remainder of the net deferred tax asset is attributable to year-to-year timing differences including accrued, but not deductible, employee performance awards, vacation and sick pay, bad debt allowance and depreciation. We believe that it is more likely than not that the deferred tax asset will be realized and that no valuation allowance is required.

12. Income Per Share and Per Unit

Income per Share. The limited partners' outstanding limited partnership units in the Operating Partnership (which may be redeemed for common stock upon notice from the limited partners and following our election to redeem the units for stock rather than cash) have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the limited partners' share of income would also be added back to net income. The computation of basic and diluted earnings per share is presented below.

	Three Months Ended <u>June 30, 2016</u> (unaudited)	Three Months Ended <u>June 30, 2015</u> (unaudited)	Six Months Ended <u>June 30, 2016</u> (unaudited)	Six Months Ended <u>June 30, 2015</u> (unaudited)
Numerator				
Net income attributable to the Company for basic computation	\$ 1,761,106	\$ 1,431,110	\$ 2,244,205	\$ 2,006,444
Denominator				
Weighted average number of common shares outstanding for basic computation	<u>14,949,651</u>	<u>10,768,730</u>	<u>14,871,281</u>	<u>10,682,743</u>
Basic and diluted net income per share	<u>\$ 0.12</u>	<u>\$ 0.13</u>	<u>\$ 0.15</u>	<u>\$ 0.19</u>

Income Per Unit – The computation of basic and diluted earnings per unit is presented below.

	Three Months Ended <u>June 30, 2016</u> (unaudited)	Three Months Ended <u>June 30, 2015</u> (unaudited)	Six Months Ended <u>June 30, 2016</u> (unaudited)	Six Months Ended <u>June 30, 2015</u> (unaudited)
Numerator				
Net income	\$ 1,977,550	\$ 1,759,109	\$ 2,523,428	\$ 2,472,967
Denominator				
Weighted average number of units outstanding	<u>16,727,791</u>	<u>13,052,524</u>	<u>16,721,417</u>	<u>13,099,316</u>
Basic and diluted net income per unit	<u>\$ 0.12</u>	<u>\$ 0.13</u>	<u>\$ 0.15</u>	<u>\$ 0.19</u>

13. Subsequent Events

On July 11, 2016, we paid a quarterly dividend (distribution) of \$0.09 per common share (and unit) to those stockholders (and unitholders of the Operating Partnership) of record on June 15, 2016.

On July 25, 2016, we authorized payment of a quarterly dividend (distribution) of \$0.095 per common share (and unit) to the stockholders (and unitholders of the Operating Partnership) of record as of September 15, 2016. The dividend (distribution) is to be paid on October 11, 2016.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Sotherly Hotels Inc. is a self-managed and self-administered lodging REIT incorporated in Maryland in August 2004 to pursue opportunities in the full-service, primarily upscale and upper-upscale segments of the hotel industry located in primary and secondary markets in the mid-Atlantic and southern United States. Substantially all of the assets of Sotherly Hotels Inc. are held by, and all of its operations are conducted through, Sotherly Hotels LP, formerly MHI Hospitality, L.P. We commenced operations in December 2004 when we completed our initial public offering and thereafter consummated the acquisition of the initial properties.

Our hotel portfolio currently consists of twelve full-service, primarily upscale and upper-upscale hotels, comprising 3,011 rooms. All of our properties, except for The Georgian Terrace and The Whitehall, operate under well-known brands such as Hilton, Crowne Plaza, DoubleTree and Sheraton. As of June 30, 2016, we owned the following hotel properties:

<u>Property</u>	<u>Number of Rooms</u>	<u>Location</u>	<u>Date of Acquisition</u>	<u>Chain Designation</u>
Wholly-owned				
Crowne Plaza Hampton Marina ⁽¹⁾	173	Hampton, VA	April 24, 2008	Upscale
Crowne Plaza Hollywood Beach Resort	311	Hollywood, FL	August 9, 2007	Upscale
Crowne Plaza Tampa Westshore	222	Tampa, FL	October 29, 2007	Upscale
DoubleTree by Hilton Jacksonville Riverfront	293	Jacksonville, FL	July 22, 2005	Upscale
DoubleTree by Hilton Laurel	208	Laurel, MD	December 21, 2004	Upscale
DoubleTree by Hilton Philadelphia Airport	331	Philadelphia, PA	December 21, 2004	Upscale
DoubleTree by Hilton Raleigh Brownstone-University	190	Raleigh, NC	December 21, 2004	Upscale
Georgian Terrace	326	Atlanta, GA	March 27, 2014	Independent ⁽²⁾
Hilton Savannah DeSoto	246	Savannah, GA	December 21, 2004	Upper Upscale
Hilton Wilmington Riverside	272	Wilmington, NC	December 21, 2004	Upper Upscale
Sheraton Louisville Riverside	180	Jeffersonville, IN	September 20, 2006	Upper Upscale
The Whitehall	259	Houston, TX	November 13, 2013	Independent ⁽²⁾
Total	<u>3,011</u>			

- (1) In April 2016, we entered into an agreement to sell the Crowne Plaza Hampton Marina, which is subject to customary closing conditions. The agreement requires the sale to close on or before August 12, 2016. We are currently negotiating an extension of the closing date with the purchaser.
- (2) We believe that The Georgian Terrace and The Whitehall would each carry a chain scale designation of upper upscale if they were branded hotels.

We conduct substantially all our business through our Operating Partnership. We are the sole general partner of our Operating Partnership, and we own an approximate 89.4% interest in our Operating Partnership, as of the date of this filing, with the remaining interest being held by limited partners who were the contributors of our initial properties and related assets.

To qualify as a REIT, we cannot operate hotels. Therefore, our wholly-owned hotel properties are leased to our TRS Lessees, which are wholly owned subsidiaries of the Operating Partnership. Our TRS Lessees then engage an eligible independent hotel management company to operate the hotels under a management agreement. Our TRS Lessee has engaged Chesapeake Hospitality to manage our wholly-owned hotels. Our TRS Lessees, and their parent, MHI Hospitality TRS Holding, Inc., are consolidated into our financial statements for accounting purposes. The earnings of MHI Hospitality TRS Holding, Inc. are subject to taxation similar to other C corporations.

Key Operating Metrics

In the hotel industry, room revenue is considered the most important category of revenue and drives other revenue categories such as food, beverage, catering, parking, and telephone. There are three key performance indicators used in the hotel industry to measure room revenues:

- Occupancy, or the number of rooms sold, usually expressed as a percentage of total rooms available;
- Average daily rate, or ADR, which is total room revenue divided by the number of rooms sold; and
- Revenue per available room, or RevPAR, which is total room revenue divided by the total number of available rooms.

RevPAR changes that are primarily driven by changes in occupancy have different implications for overall revenues and profitability than changes that are driven primarily by changes in ADR. For example, an increase in occupancy at a hotel would lead to additional variable operating costs (such as housekeeping services, laundry, utilities, room supplies, franchise fees, management fees, credit card commissions and reservation expenses), but could also result in increased non-room revenue from the hotel's restaurant, banquet or parking facilities. Changes in RevPAR that are primarily driven by changes in ADR typically have a greater impact on operating margins and profitability as they do not generate all of the additional variable operating costs associated with higher occupancy.

We also use FFO, Adjusted FFO and Hotel EBITDA as a measure of our operating performance. See "Non-GAAP Financial Measures."

Results of Operations

The following tables illustrate the key operating metrics for the three and six months ended June 30, 2016 and 2015, respectively, for the Company's wholly-owned properties, during each respective reporting period ("actual" portfolio metrics), as well as the eleven wholly-owned properties in the portfolio that were under the Company's control during the three and six months ended June 30, 2016 and the corresponding period in 2015 ("same-store" portfolio metrics). Accordingly, the same-store data does not reflect the performance for the Crowne Plaza Hollywood Beach Resort, which was acquired through a joint venture in August 2007 and in which the Company had a 25.0% indirect interest prior to its acquisition of the remaining 75.0% interest in July 2015.

	<i>Three Months Ended June 30, 2016</i>	<i>Three Months Ended June 30, 2015</i>	<i>Six Months Ended June 30, 2016</i>	<i>Six Months Ended June 30, 2015</i>
Actual Portfolio Metrics				
Occupancy %	76.0%	75.4%	72.3%	71.9%
ADR	\$ 143.65	\$ 142.41	\$ 144.47	\$ 135.91
RevPAR	\$ 109.16	\$ 107.33	\$ 104.44	\$ 97.65
Same-Store Portfolio Metrics				
Occupancy %	75.8%	74.5%	71.0%	71.9%
ADR	\$ 141.17	\$ 139.48	\$ 137.66	\$ 135.91
RevPAR	\$ 106.95	\$ 103.92	\$ 97.78	\$ 97.65

Comparison of the Three Months Ended June 30, 2016 to the Three Months Ended June 30, 2015

Revenue. Total revenue for the three months ended June 30, 2016 increased approximately \$4.9 million, or 13.5%, to approximately \$41.8 million compared to total revenue of approximately \$36.9 million for the three months ended June 30, 2015. Approximately \$4.8 million of the increase relates to the acquisition of our property in Hollywood Beach, Florida in July 2015. Increases in revenues at our properties in Wilmington, North Carolina; Laurel, Maryland; Jacksonville, Florida; Tampa, Florida; Hampton, Virginia and Atlanta, Georgia, were offset by decreases in revenue impacted by the change in the performance of our Jeffersonville, Indiana property over the weekend of the Kentucky Derby and by renovation activities at Savannah, Georgia, and the downturn in the oil market in Houston, Texas, as well as, other revenue decreases at properties in Raleigh, North Carolina and Philadelphia, Pennsylvania.

Room revenue increased approximately \$3.5 million, or 13.5%, to approximately \$29.9 million for the three months ended June 30, 2016 compared to room revenue of approximately \$26.4 million for the three months ended June 30, 2015. The increase in room revenue for the three months ended June 30, 2016 resulted mainly from the acquired property in Hollywood Beach, Florida, accounting for an increase of approximately \$3.6 million for the period. Increases in room revenues at our properties in Wilmington, North Carolina; Philadelphia Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Tampa, Florida; Hampton, Virginia and Atlanta, Georgia, were offset by decreases in room revenue impacted by the change in the performance of our Jeffersonville, Indiana property over the weekend of the Kentucky Derby and by renovation activities at Savannah, Georgia, and the downturn in the oil market in Houston, Texas, as well as, other room revenue decreases at properties in Raleigh, North Carolina, as compared to the same period in 2015.

Food and beverage revenues increased approximately \$1.0 million, or 11.3%, to approximately \$9.6 million for the three months ended June 30, 2016 compared to food and beverage revenues of approximately \$8.6 million for the three months ended June 30, 2015. The increase in food and beverage revenues for the three months ended June 30, 2016 resulted mainly from the acquired property in Hollywood Beach, Florida, accounting for an increase of approximately \$0.8 million for the period. Increases in food and beverage revenues at our properties in Wilmington, North Carolina; Raleigh, North Carolina; Laurel, Maryland; Jacksonville, Florida; Jeffersonville, Indiana; Tampa, Florida; Hampton, Virginia and Atlanta, Georgia, were offset by decreases in food and beverage

revenue impacted by renovation activities at Savannah, Georgia, and the downturn in the oil market in Houston, Texas, as well as, other food and beverage revenue decreases at properties in Philadelphia, Pennsylvania, as compared to the same period in 2015.

Revenue from other operating departments increased approximately \$0.4 million, or 22.5%, to approximately \$2.3 million for the three months ended June 30, 2016 compared to revenue from other operating departments of approximately \$1.9 million for the three months ended June 30, 2015. The increase in revenue from other operating departments for the three months ended June 30, 2016 resulted mainly from the acquired property in Hollywood Beach, Florida, accounting for an increase of approximately \$0.3 million for the period.

Hotel Operating Expenses. Hotel operating expenses, which consist of room expenses, food and beverage expenses, other direct expenses, indirect expenses and management fees, were approximately \$29.3 million for the three months ended June 30, 2016, an increase of approximately \$4.4 million, or 17.9%, compared to total hotel operating expenses of approximately \$24.9 million for the three months ended June 30, 2015. The increase in hotel operating expenses for the three months ended June 30, 2016 was substantially related to the increase from the acquired property in Hollywood Beach, Florida, accounting for an increase in hotel operating expenses of approximately \$3.6 million for the period, which was offset by reductions in hotel operating expenses at our properties in Savannah, Georgia; Raleigh, North Carolina; Philadelphia, Pennsylvania; Jeffersonville, Indiana and Houston, Texas.

Rooms expense for the three months ended June 30, 2016 increased approximately \$1.1 million, or 16.9%, to approximately \$7.6 million compared to rooms expense for the three months ended June 30, 2015 of approximately \$6.5 million. The increase in rooms expense for the three months ended June 30, 2016 was substantially related to the acquired property in Hollywood Beach, Florida, accounting for an increase in rooms expense of approximately \$0.9 million for the period.

Food and beverage expenses for the three months ended June 30, 2016 increased approximately \$0.8 million, or 13.9%, to approximately \$6.5 million compared to food and beverage expenses of approximately \$5.7 million for the three months ended June 30, 2015. The increase in food and beverage expenses for the three months ended June 30, 2016 was substantially related to the acquired property in Hollywood Beach, Florida, accounting for an increase in food and beverage expenses of approximately \$0.6 million for the period.

Expenses from other operating departments increased approximately \$0.3 million, or 77.5%, to approximately \$0.6 million for the three months ended June 30, 2016 compared to expenses from other operating departments of approximately \$0.3 million for the three months ended June 30, 2015. The increase in expense from other operating departments for the three months ended June 30, 2016 resulted mainly from the acquired property in Hollywood Beach, Florida, accounting for an increase of approximately \$0.2 million for the period.

Indirect expenses at our wholly-owned properties for the three months ended June 30, 2016 increased approximately \$2.3 million, or 18.5%, to approximately \$14.6 million compared to indirect expenses of approximately \$12.3 million for the three months ended June 30, 2015. The increase in indirect expenses for the three months ended June 30, 2016 was substantially related to the acquired property in Hollywood Beach, Florida, accounting for an increase in indirect expenses of approximately \$1.9 million for the period, compared with the three months ended June 30, 2015.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended June 30, 2016 increased approximately \$0.5 million, or 15.0%, to \$3.8 million compared to depreciation and amortization of approximately \$3.3 million for the three months ended June 30, 2015. The increase was mostly attributable to increases in the depreciation related to our acquired property in Hollywood Beach, Florida, accounting for increases of approximately \$0.5 million for the period.

Corporate General and Administrative. Corporate general and administrative expenses for the three months ended June 30, 2016 decreased approximately \$0.1 million, or 9.0% to approximately \$1.4 million compared to corporate general and administrative expenses of approximately \$1.5 million for the three months ended June 30, 2015. The decrease in corporate general and administrative expenses was mainly due to a decrease in professional fees of approximately \$0.1 million.

Interest Expense. Interest expense for the three months ended June 30, 2016 increased approximately \$0.8 million, or 20.1%, to approximately \$4.6 million compared to interest expense of approximately \$3.8 million for the three months ended June 30, 2015. The increase in interest expense for the three months ended June 30, 2016 was substantially related to the assumed mortgage loan for the acquired property in Hollywood Beach, Florida, accounting for an increase in interest expense of approximately \$0.7 million for the period.

Equity Income (Loss) in Joint Venture. Equity income in joint venture for the three months ended June 30, 2015 represented our 25.0% share of the net income of the Crowne Plaza Hollywood Beach Resort. For the three months ended June 30, 2016 and 2015, we realized approximately \$0 and \$24,368 net income, respectively.

Unrealized Loss on Hedging Activities. As of June 30, 2016, the fair market value of the interest rate cap is \$4,907. The unrealized loss on hedging activities during the three months ended June 30, 2016 and 2015, was \$15,517 and \$0, respectively.

Income Taxes. We had an income tax provision of approximately \$0.5 million for the three months ended June 30, 2016 compared to an income tax provision of approximately \$1.0 million for the three months ended June 30, 2015. The income tax provision is primarily derived from the operations of our TRS Lessees. Our TRS Lessees realized an operating income for the three months ended June 30, 2016 and for the three months ended June 30, 2015.

Net Income. We realized net income for the three months ended June 30, 2016 of approximately \$2.0 million compared to net income of approximately \$1.8 million for the three months ended June 30, 2015 as a result of the operating results discussed above.

Comparison of the Six Months Ended June 30, 2016 to the Six Months Ended June 30, 2015

Revenue. Total revenue for the six months ended June 30, 2016 increased approximately \$11.8 million, or 17.4%, to approximately \$79.6 million compared to total revenue of approximately \$67.8 million for the six months ended June 30, 2015. Approximately \$11.5 million of the increase relates to the acquisition of our property in Hollywood Beach, Florida in July 2015. Increases in revenues at our properties in Wilmington, North Carolina; Laurel, Maryland; Jacksonville, Florida; Tampa, Florida; Hampton, Virginia and Atlanta, Georgia, were offset by decreases in revenue impacted by the change in the performance of our Jeffersonville, Indiana property over the weekend of the Kentucky Derby and by renovation activities at Savannah, Georgia, and the downturn in the oil market in Houston, Texas, as well as, a revenue decrease at our property in Raleigh, North Carolina.

Room revenue increased approximately \$9.5 million, or 20.0%, to approximately \$57.2 million for the six months ended June 30, 2016 compared to room revenue of approximately \$47.7 million for the six months ended June 30, 2015. The increase in room revenue for the six months ended June 30, 2016 resulted mainly from the acquired property in Hollywood Beach, Florida, accounting for an increase of approximately \$9.2 million for the period. Increases in room revenues at our properties in Wilmington, North Carolina; Laurel, Maryland; Jacksonville, Florida; Tampa, Florida; Hampton, Virginia and Atlanta, Georgia, were offset by decreases in room revenue impacted by the change in the performance of our Jeffersonville, Indiana property over the weekend of the Kentucky Derby and by renovation activities at Savannah, Georgia, and the downturn in the oil market in Houston, Texas, as well as, other room revenue decreases at properties in Raleigh, North Carolina and Philadelphia, Pennsylvania, as compared to the same period in 2015. In addition, the increase in room revenue for the six months ended June 30, 2016 resulted from a 6.3% increase in ADR and a 7.0% increase in RevPAR and a 0.5% increase in occupancy, as compared to the same period in 2015.

Food and beverage revenues increased approximately \$1.5 million, or 9.2%, to approximately \$17.8 million for the six months ended June 30, 2016 compared to food and beverage revenues of approximately \$16.3 million for the six months ended June 30, 2015. The increase in food and beverage revenues for the six months ended June 30, 2016 resulted mainly from the acquired property in Hollywood Beach, Florida, accounting for an increase of approximately \$1.6 million for the period. Increases in food and beverage revenues at our properties in Wilmington, North Carolina; Laurel, Maryland; Jacksonville, Florida; Jeffersonville, Indiana and Tampa, Florida, were offset by decreases in food and beverage revenue impacted by renovation activities at Savannah, Georgia, and the downturn in the oil market in Houston, Texas, as well as, other food and beverage revenue decreases at properties in Raleigh, North Carolina; Philadelphia, Pennsylvania; Hampton, Virginia and Atlanta, Georgia, as compared to the same period in 2015.

Revenue from other operating departments increased approximately \$0.8 million, or 19.7%, to approximately \$4.6 million for the six months ended June 30, 2016 compared to revenue from other operating departments of approximately \$3.8 million for the six months ended June 30, 2015. The increase in revenue from other operating departments for the six months ended June 30, 2016 resulted mainly from the acquired property in Hollywood Beach, Florida, accounting for an increase of approximately \$0.7 million for the period.

Hotel Operating Expenses. Hotel operating expenses, which consist of room expenses, food and beverage expenses, other direct expenses, indirect expenses and management fees, were approximately \$57.1 million for the six months ended June 30, 2016, an increase of approximately \$9.2 million, or 19.1%, compared to total hotel operating expenses of approximately \$47.9 million for the six months ended June 30, 2015. The increase in hotel operating expenses for the six months ended June 30, 2016 was substantially related to the increase from the acquired property in Hollywood Beach, Florida, accounting for an increase in hotel operating expenses of approximately \$7.6 million for the period, which along with increases in hotel operating expenses from our properties in Laurel, Maryland; Jacksonville, Florida; Tampa, Florida; Hampton, Virginia and Atlanta, Georgia was offset by reductions in hotel operating expenses at our properties in Raleigh, North Carolina; Philadelphia, Pennsylvania; Jeffersonville, Indiana and Houston, Texas.

Rooms expense for the six months ended June 30, 2016 increased approximately \$2.4 million, or 19.0%, to approximately \$14.7 million compared to rooms expense of approximately \$12.3 million for the six months ended June 30, 2015. The increase in rooms

expense for the six months ended June 30, 2016 was substantially related to the acquired property in Hollywood Beach, Florida, accounting for an increase in rooms expense of approximately \$2.0 million for the period.

Food and beverage expenses for the six months ended June 30, 2016 increased approximately \$1.3 million, or 11.9%, to approximately \$12.4 million compared to food and beverage expenses of approximately \$11.1 million for the six months ended June 30, 2015. The increase in food and beverage expenses for the six months ended June 30, 2016 was substantially related to the acquired property in Hollywood Beach, Florida, accounting for an increase in food and beverage expenses of approximately \$1.2 million for the period.

Expenses from other operating departments increased approximately \$0.5 million, or 76.6%, to approximately \$1.2 million for the six months ended June 30, 2016 compared to expenses from other operating departments of approximately \$0.7 million for the six months ended June 30, 2015. The increase in expense from other operating departments for the six months ended June 30, 2016 resulted mainly from the acquired property in Hollywood Beach, Florida, accounting for an increase of approximately \$0.4 million for the period.

Indirect expenses at our wholly-owned properties were approximately \$28.7 million for the six months ended June 30, 2016, an increase of approximately \$4.9 million, or 20.8%, compared to indirect expenses of approximately \$23.8 million for the six months ended June 30, 2015. The increase in indirect expenses for the six months ended June 30, 2016 was substantially related to the acquired property in Hollywood Beach, Florida, accounting for an increase in indirect expenses of approximately \$4.0 million for the period, compared with the six months ended June 30, 2015, along with increased property taxes at our properties in Savannah, Georgia and Atlanta, Georgia by approximately \$0.4 million and increased sales and marketing expenses by approximately \$0.5 million at our properties in Laurel, Maryland; Jacksonville, Florida; Tampa, Florida and Atlanta, Georgia.

Depreciation and Amortization. Depreciation and amortization expense for the six months ended June 30, 2016 increased approximately \$1.3 million, or 20.3%, to \$7.5 million compared to depreciation and amortization of approximately \$6.2 million for the six months ended June 30, 2015. The increase was mostly attributable to increases in the depreciation related to our acquired property in Hollywood Beach, Florida, accounting for increases of approximately \$1.1 million for the period.

Corporate General and Administrative. Corporate general and administrative expenses for the six months ended June 30, 2016 increased approximately \$0.1 million, or 0.8%, to approximately \$3.0 million compared to corporate general and administrative expenses of approximately \$2.9 million, for the six months ended June 30, 2015. The increase in corporate general and administrative expenses was mainly due to approximately \$0.2 million in increased salaries, travel and contribution expenses, offset by a reduction in audit fees by approximately \$0.1 million, as compared to the same period in 2015.

Interest Expense. Interest expense for the six months ended June 30, 2016 increased approximately \$1.6 million, or 21.4%, to approximately \$9.2 million compared to interest expense of approximately \$7.6 million for the six months ended June 30, 2015. The increase in interest expense for the six months ended June 30, 2016 was substantially related to the assumed mortgage loan for the acquired property in Hollywood Beach, Florida, accounting for an increase in interest expense of approximately \$1.5 million for the period, as compared to the same period in 2015.

Equity Income in Joint Venture. Equity income in joint venture for the six months ended June 30, 2015 represented our 25.0% share of the net income of the Crowne Plaza Hollywood Beach Resort. For the six months ended June 30, 2016 and 2015, we realized approximately \$0 and \$0.5 million net income, respectively.

Loss on Early Debt Extinguishment. During the six months ended June 30, 2016 we refinanced a fixed rate mortgage loan, we had with the C-1 Bank on the Crowne Plaza Tampa Westshore, with a new fixed rate loan from Fifth Third Bank. The amount of accumulated un-amortized loan costs of \$40,236 was written off during the period ending June 30, 2016. We also refinanced a fixed rate mortgage loan we had with the MONY Life Insurance Co. on the Hilton Savannah Desoto, writing off loan costs of \$30,057. During the six months ended June 30, 2015 we refinanced a variable rate mortgage loan, we had with the Bank of the Ozarks on The Georgian Terrace, with a new fixed rate loan from Bank of America. The amount of accumulated un-amortized loan costs of \$698,083 was written off during the period ending June 30, 2015.

Loss on Disposal of Assets. During the six months ended June 30, 2016, we recorded a loss on disposal of assets of \$140,193, compared to no disposal of assets for the six months ended June 30, 2015.

Unrealized Loss on Hedging Activities. As of June 30, 2016, the fair market value of the interest rate cap, on the DoubleTree by Hilton Jacksonville Riverfront mortgage, is \$4,907. The unrealized loss on hedging activities during the six months ended June 30, 2016 and 2015, was \$66,074 and \$0, respectively.

Gain on involuntary conversion of Asset. During the six months ended June 30, 2015, we recorded a gain on involuntary conversion of asset in the amount of \$37,833, compared to no gain on involuntary conversion of asset for the six months ended June 30, 2016.

Income Taxes. We had an income tax provision of approximately \$0.1 million for the six months ended June 30, 2016 compared to an income tax provision of approximately \$0.5 million for the six months ended June 30, 2015. The income tax provision is primarily derived from the operations of our TRS Lessee. Our TRS Lessee realized a taxable operating income for the six months ended June 30, 2016 and 2015, respectively.

Net Income (Loss). We realized net income of approximately \$2.5 million for the six months ended June 30, 2016 compared to a net income of approximately \$2.5 million for the six months ended June 30, 2015, as a result of the operating results discussed above.

Non-GAAP Financial Measures

We consider FFO, Adjusted FFO and Hotel EBITDA, all of which are non-GAAP financial measures, to be key supplemental measures of our performance and could be considered along with, not alternatives to, net income (loss) as a measure of our performance. These measures do not represent cash generated from operating activities determined by generally accepted accounting principles (“GAAP”) or amounts available for our discretionary use and should not be considered alternative measures of net income, cash flows from operations or any other operating performance measure prescribed by GAAP.

FFO and Adjusted FFO. Industry analysts and investors use FFO as a supplemental operating performance measure of an equity REIT. FFO is calculated in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). FFO, as defined by NAREIT, represents net income or loss determined in accordance with GAAP, excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after adjustment for any noncontrolling interest from unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by itself.

We consider FFO to be a useful measure of adjusted net income (loss) for reviewing comparative operating and financial performance because we believe FFO is most directly comparable to net income (loss), which remains the primary measure of performance, because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company’s real estate between periods or as compared to different companies. Although FFO is intended to be a REIT industry standard, other companies may not calculate FFO in the same manner as we do, and investors should not assume that FFO as reported by us is comparable to FFO as reported by other REITs.

We further adjust FFO for certain additional items that are not in NAREIT’s definition of FFO, including changes in deferred income taxes, any unrealized gain (loss) on its hedging instruments or warrant derivative, loan impairment losses, losses on early extinguishment of debt, aborted offering costs, franchise termination costs, loan modification fees, costs associated with the departure of executive officers, litigation settlement, over-assessed real estate taxes on appeal, change in control gains or losses and acquisition transaction costs.

We exclude these items as we believe it allows for meaningful comparisons between periods and among other REITs and is more indicative of the on-going performance of our business and assets. Our calculation of Adjusted FFO may be different from similar measures calculated by other REITs.

The following is a reconciliation of net income to FFO and Adjusted FFO for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	\$ 1,977,550	\$ 1,759,109	\$ 2,523,428	\$ 2,472,967
Depreciation and amortization	3,801,478	3,304,906	7,470,115	6,209,297
Equity in depreciation and amortization of joint venture	—	111,101	—	222,245
Gain on involuntary conversion of asset	—	(37,833)	—	(37,833)
Loss on disposal of assets	140,193	—	140,193	—
FFO	\$ 5,919,221	\$ 5,137,283	\$ 10,133,736	\$ 8,866,676
Increase (decrease) in deferred income taxes	479,854	905,258	(7,615)	408,804
Loss on early debt extinguishment	70,293	698,083	70,293	698,083
Loan modification fees	30,235	—	30,235	—
Loss on hedging activities	15,517	—	66,074	—
Adjusted FFO	\$ 6,515,120	\$ 6,740,624	\$ 10,292,723	\$ 9,973,563
Weighted average number of shares outstanding, basic and diluted	14,949,651	10,768,730	14,871,281	10,682,743
Weighted average number of non-controlling units	1,778,140	2,283,794	1,850,136	2,416,573
Weighted average number of shares and units outstanding, basic and diluted	<u>16,727,791</u>	<u>13,052,524</u>	<u>16,721,417</u>	<u>13,099,316</u>
FFO per share and unit	\$ 0.35	\$ 0.39	\$ 0.61	\$ 0.68
Adjusted FFO per share and unit	\$ 0.39	\$ 0.52	\$ 0.62	\$ 0.76

Hotel EBITDA. We define Hotel EBITDA as net income or loss excluding: (1) interest expense, (2) interest income, (3) income tax provision or benefit, (4) equity in the income or loss of equity investees, (5) unrealized gains and losses on derivative instruments not included in other comprehensive income, (6) gains and losses on disposal of assets, (7) realized gains and losses on investments, (8) impairment of long-lived assets or investments, (9) loss on early debt extinguishment, (10) gains or losses on change in control, (11) corporate general and administrative expense, (12) depreciation and amortization, (13) gains and losses on involuntary conversions of assets, (14) loan modification fees and (15) other operating revenue not related to our wholly-owned portfolio. We believe this provides a more complete understanding of the operating results over which our wholly-owned hotels and its operators have direct control. We believe Hotel EBITDA provides investors with supplemental information on the on-going operational performance of our hotels and the effectiveness of third-party management companies operating our business on a property-level basis.

Our calculation of Hotel EBITDA may be different from similar measures calculated by other REITs.

The following is a reconciliation of net income to Hotel EBITDA for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	\$ 1,977,550	\$ 1,759,109	\$ 2,523,428	\$ 2,472,967
Interest expense	4,613,165	3,840,435	9,245,797	7,614,970
Interest income	(10,207)	(15,308)	(19,038)	(25,409)
Income tax provision	512,827	955,535	76,747	516,760
Depreciation and amortization	3,801,478	3,304,906	7,470,115	6,209,297
Equity in interest, depreciation and amortization of joint venture	—	274,734	640,188	547,343
Loss on early debt extinguishment	70,293	698,083	70,293	698,083
Loan modification fees	30,235	—	30,235	—
Loss on disposal of assets	140,193	—	140,193	—
Gain on involuntary conversion of asset	—	(37,833)	—	(37,833)
EBITDA and Adjusted EBITDA	11,135,534	10,779,661	20,177,958	17,996,178
Corporate general and administrative	1,356,754	1,490,380	2,964,048	2,941,604
Equity in Adjusted EBITDA of joint venture	—	(299,102)	(640,188)	(1,046,060)
Unrealized loss on hedging activities	15,517	—	66,074	—
Other fee income	—	(73,435)	—	(179,064)
Hotel EBITDA	\$ 12,507,805	\$ 11,897,504	\$ 22,567,892	\$ 19,712,658

Sources and Uses of Cash

Operating Activities. Our principal source of cash to meet our operating requirements, including distributions to unitholders and stockholders as well as debt service (excluding debt maturities), is the operations of our hotels. Cash flow provided by operating activities for the six months ended June 30, 2016 was approximately \$13.5 million. We had an increase in cash provided by operating activities for the six months ended June 30, 2016 of approximately \$4.1 million, compared to the six months ended June 30, 2015. The increase is mainly attributable to a net increase of changes in assets and liabilities of approximately \$2.9 million and an increase of approximate \$1.2 million in other adjustments to reconcile net income to net cash provided by operating activities. We expect that cash on hand and the net cash provided by operations will be adequate to fund our continuing operations, monthly and quarterly scheduled payments of principal and interest (excluding any balloon payments due upon maturity of a debt) and the payment of dividends (distributions) to the Company's stockholders (and unitholders of the Operating Partnership) in accordance with federal income tax laws which require us to make annual distributions, as "qualifying distributions," to the Company's stockholders of at least 90% of its REIT taxable income (determined without regard to the dividends-paid deduction and by excluding its net capital gains, and reduced by certain non-cash items).

Investing Activities. During the six months ended June 30, 2016, we used approximately \$8.8 million on capital expenditures, of which, approximately \$2.0 million related to the routine replacement of furniture, fixtures and equipment and \$6.8 million related to renovation of our properties in Atlanta, Georgia; Houston, Texas; and Savannah, Georgia. We also contributed approximately \$4.3 million during the six months ended June 30, 2016 into reserves required by the lenders for ten of our hotels according to the provisions of their respective loan agreements. During the six months ended June 30, 2016, we received reimbursements from those reserves of approximately \$5.5 million for capital expenditures related to those properties.

Financing Activities. Cash flow provided by financing activities for the six months ended June 30, 2016 was approximately \$8.7 million. This inflow was comprised of net proceeds from mortgage loans of approximately \$12.0 million offset by dividend and distribution payments of \$2.8 million and payments of deferred financing costs of \$0.5 million.

Capital Expenditures

We anticipate that our need for recurring capital expenditures for the replacement and refurbishment of furniture, fixtures and equipment over the next 12 to 24 months will be at historical norms for our properties and the industry. Historically, we have aimed to maintain overall capital expenditures, except for those required by our franchisors as a condition to a franchise license or license renewal, at 4.0% of gross revenue. Below is a description of capital expenditures by property:

- At the Company's hotel in Houston, Texas, renovations of the guestrooms and public spaces totaling an estimated \$5.0 million are complete. As of June 30, 2016, the Company had incurred costs totaling approximately \$4.8 million toward this renovation. Renovations were completed in April 2016 and the Company converted the Houston, Texas property to The Whitehall by Sotherly Hotels, an independent hotel and member of Preferred Hotels & Resorts.
- At the Company's hotel in Atlanta, Georgia, an estimated \$7.0 million guestroom renovation is underway. As of June 30, 2016, the Company had incurred costs totaling approximately \$6.7 million toward this renovation. Renovations are substantially complete.
- At the Company's hotel in Savannah, Georgia, renovations of the guestrooms and public spaces totaling an estimated \$8.1 million are underway. As of June 30, 2016, the Company had incurred costs totaling approximately \$2.8 million toward this renovation. Renovations are expected to be completed in August 2017.

Given our desire to complete the renovation activities at our property in Atlanta, Georgia and to continue such activities in Savannah, Georgia, we aim to restrict all other capital expenditures at these hotels during the renovation period to the replacement of broken or damaged furniture and equipment and the acquisition of items mandated by our licensor that are necessary to maintain our brand affiliation in Savannah, Georgia. We anticipate that capital expenditures for the replacement and refurbishment of furniture, fixtures and equipment that are not related to these renovation activities to total 2.50% to 3.00% of gross revenues in 2016.

We expect a substantial portion of our capital expenditures for the recurring replacement or refurbishment of furniture, fixtures and equipment at our properties will be funded by our replacement reserve accounts, other than costs that we incur to make capital improvements required by our franchisors. Reserve accounts are escrowed accounts with funds deposited monthly and reserved for capital improvements or expenditures with respect to all of our hotels. We currently deposit an amount equal to 4.0% of gross revenue for the Hilton Savannah DeSoto, the Hilton Wilmington Riverside, the Crowne Plaza Hampton Marina, the DoubleTree by Hilton Raleigh Brownstone-University, the Sheraton Louisville Riverside, The Whitehall, the DoubleTree by Hilton Jacksonville Riverfront, the Crowne Plaza Hollywood Beach Resort and The Georgian Terrace as well as 4.0% of room revenues for the DoubleTree by Hilton Philadelphia Airport on a monthly basis.

Liquidity and Capital Resources

As of June 30, 2016, we had total cash of approximately \$30.6 million, of which approximately \$26.1 million was in cash and cash equivalents and approximately \$4.5 million was restricted for real estate taxes, insurance, capital improvement and certain other expenses, or otherwise restricted. We expect that our cash on hand combined with our cash flow from the operations of our hotels should be adequate to fund continuing operations, recurring capital expenditures for the refurbishment and replacement of furniture, fixtures and equipment, and monthly and quarterly scheduled payments of principal and interest (excluding any balloon payments due upon maturity of the indentures or mortgage debt).

On March 21, 2016, we entered into an agreement to extend the maturity of the mortgage on The Whitehall until November 2017.

During May 2016, we extended the maturity for the mortgage on the Crowne Plaza Hampton Marina to September 30, 2016. On April 29, 2016, we entered into a purchase and sale agreement to sell the property, which is subject to customary closing conditions. The agreement requires the sale to close on or before August 12, 2016. We are currently negotiating an extension of the closing date with the purchaser. If the sale does not close before the maturity date, or at all, we anticipate that we will either seek an extension of the mortgage with the existing lender or satisfy the outstanding balance out of working capital.

On June 27, 2016, the Company, entered into a promissory note and other loan documents to secure a \$35.0 million mortgage on the Hilton Savannah DeSoto with MONY Life Insurance Company. The loan has a maturity date of July 1, 2026. The Company used the proceeds to repay the existing first mortgage on the hotel and to pay closing costs, and will use the balance of the proceeds to fund ongoing renovations at the hotel and for general corporate purposes.

On June 30, 2016, the Company entered into a loan agreement and other loan documents, including a guaranty of payment by the Operating Partnership, to secure a \$19.0 million mortgage on the Crowne Plaza Tampa Westshore with Fifth Third Bank. The loan has an initial term of three years with a maturity on July 1, 2019, and may be extended for two additional periods of one year

each, subject to certain conditions. The Company used the proceeds to repay the existing first mortgage on the hotel and to pay closing costs, and will use the balance of the proceeds for general corporate purposes.

During the first half of 2017, the mortgages on the Sheraton Louisville Riverside and the Hilton Wilmington Riverside mature. These mortgages contain no extension provisions. We anticipate refinancing the indebtedness on each property prior to their respective maturity dates.

We will need to, and plan to, renew, replace or extend our existing indebtedness prior to their respective maturity dates. We are uncertain whether we will be able to refinance these obligations or if refinancing terms will be favorable. If we are unable to obtain alternative or additional financing arrangements in the future, or if we cannot obtain financing on acceptable terms, we may be forced to dispose of hotel properties on disadvantageous terms. To the extent we cannot repay our outstanding debt, we risk losing some or all of these properties to foreclosure and we could be required to invoke insolvency proceedings including, but not limited to, commencing a voluntary case under the U.S. Bankruptcy Code.

We intend to continue to invest in hotel properties as suitable opportunities arise. The success of our acquisition strategy depends, in part, on our ability to access additional capital through other sources. There can be no assurance that we will continue to make investments in properties that meet our investment criteria. Additionally, we may choose to dispose of certain hotels as a means to provide liquidity.

We expect to meet our liquidity requirements for hotel property acquisitions, property redevelopment, investments in new joint ventures and debt maturities, which include the repayment of the Notes (which are callable after September 30, 2016, with respect to the 8% Notes, and November 15, 2017, with respect to the 7% Notes) and the retirement of maturing mortgage debt, through net proceeds from additional issuances of common shares, additional issuances of preferred shares, issuances of units of limited partnership interest in our Operating Partnership, secured and unsecured borrowings, as well as the selective disposition of non-core assets. We remain committed to a flexible capital structure and strive to maintain prudent debt leverage.

Financial Covenants

Mortgage Loans

Our mortgage loan agreements contain various financial covenants. Failure to comply with these financial covenants could result from, among other things, changes in the local competitive environment, general economic conditions and disruption caused by renovation activity or major weather disturbances.

If we violate the financial covenants contained in these agreements, we may attempt to negotiate waivers of the violations or amend the terms of the applicable mortgage loan agreement with the lender; however, we can make no assurance that we would be successful in any such negotiation or that, if successful in obtaining waivers or amendments, such waivers or amendments would be on attractive terms. Some mortgage loan agreements provide alternate cure provisions which may allow us to otherwise comply with the financial covenants by obtaining an appraisal of the hotel, prepaying a portion of the outstanding indebtedness or by providing cash collateral until such time as the financial covenants are met by the collateralized property without consideration of the cash collateral. Alternate cure provisions which include prepaying a portion of the outstanding indebtedness or providing cash collateral may have a material impact on our liquidity.

If we are unable to negotiate a waiver or amendment or satisfy alternate cure provisions, if any, or unable to meet any alternate cure requirements and a default were to occur, we would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financing.

Under the terms of our non-recourse secured mortgage loan agreements, failure to comply with the financial covenants in the loan agreement triggers cash flows from the property to be directed to the lender, which may limit our overall liquidity as that cash flow would not be available to us.

As of June 30, 2016, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans, with the exception of The Whitehall mortgage. At June 30, 2016, we failed to meet the Debt Service Coverage Ratio (“DSCR”) covenant. We are currently in discussions with the existing lender to modify the loan with an extension of the maturity date, a reduction of the principal amount of approximately \$3.0 million, and a reduced monthly payment. We expect that the modification will include a waiver through June 30, 2016 with regard to the DSCR. Notwithstanding the modification discussions, the existing loan agreement contains a balancing provision that allows us to either pay down the principal balance of the loan or offer cash collateral sufficient to meet the DSCR requirement.

Unsecured Notes

The indentures for the Notes contains certain covenants and restrictions that require us to meet certain financial ratios. We are not permitted to incur any Debt (other than intercompany Debt), as defined in the indentures, if, immediately after giving effect to the incurrence of such Debt and to the application of the proceeds thereof, the ratio of the aggregate principal amount of all outstanding Debt to Adjusted Total Asset Value, as defined in the indentures, would be greater than 0.65 to 1.0. In addition, we are not permitted to incur any Debt if the ratio of Stabilized Consolidated Income Available for Debt Service to Stabilized Consolidated Interest Expense, both as defined in the indentures, on the date on which such additional Debt is to be incurred, on a pro-forma basis, after giving effect to the incurrence of such Debt and to the application of the proceeds thereof, would be less than 1.50 to 1.0.

These financial measures are not calculated in accordance with GAAP and are presented below for the sole purpose of evaluating our compliance with the key financial covenants as they were applicable at June 30, 2016 and December 31, 2015, respectively.

	June 30, 2016	December 31, 2015
Ratio of Stabilized Consolidated Income Available for Debt Service to Stabilized Consolidated Interest Expense		
Net income ⁽¹⁾	\$ 6,448,110	\$ 6,397,653
Interest expense ⁽¹⁾	18,146,657	16,515,827
Loss on early debt extinguishment	145,117	772,907
Unrealized loss on hedging activities	174,893	108,819
Gain on change in control	(6,603,148)	(6,603,148)
Gain on disposal of assets	136,591	(41,435)
Provision for taxes ⁽¹⁾	(1,776,045)	(1,336,033)
Equity in income of joint venture ⁽¹⁾	23,203	(475,514)
Impairment of investment in hotel properties, net ⁽¹⁾	500,000	500,000
Depreciation and amortization ⁽¹⁾	14,852,314	13,591,495
Corporate general and administrative expenses ⁽¹⁾	7,290,700	7,268,256
Consolidated income available for debt service ⁽¹⁾	39,338,392	36,698,827
Less: income of non-stabilized assets ⁽¹⁾	(16,943,708)	(16,284,975)
Stabilized Consolidated Income Available for Debt Service⁽¹⁾	\$ 22,394,684	\$ 20,413,852
Interest expense ⁽¹⁾	\$ 18,146,657	\$ 16,515,827
Amortization of issuance costs ⁽¹⁾	(1,240,590)	(1,300,032)
Consolidated interest expense ⁽¹⁾	16,906,067	15,215,795
Less: interest expense of non-stabilized assets ⁽¹⁾	(5,946,034)	(5,295,224)
Stabilized Consolidated Interest Expense⁽¹⁾	\$ 10,960,033	\$ 9,920,571
Ratio of Stabilized Consolidated Income Available for Debt Service to Stabilized Consolidated Interest Expense		
	2.04	2.06
Threshold Ratio Minimum	1.50	1.50
Ratio of Debt to Adjusted Total Asset Value:		
Mortgage loans	\$ 281,161,159	\$ 271,977,944
Unsecured notes	52,900,000	52,900,000
Total debt	\$ 334,061,159	\$ 324,877,944
Stabilized Consolidated Income Available for Debt Service ⁽¹⁾	\$ 22,394,684	\$ 20,413,852
Capitalization rate	7.5%	7.5%
	298,595,787	272,184,693
Non-stabilized assets	251,600,000	305,255,698
Total cash	30,569,504	17,287,754
Adjusted Total Asset Value	\$ 580,765,291	\$ 594,728,145
Ratio of Debt to Adjusted Total Asset Value	0.57	0.55
Threshold Ratio Maximum	0.65	0.65

- (1) Represents the four preceding calendar quarters.
- (2) As permitted by the indentures, the DoubleTree by Hilton Philadelphia Airport, DoubleTree by Hilton Laurel, DoubleTree by Hilton Jacksonville Riverfront and Crowne Plaza Hollywood Beach Resort, for the period ended June 30, 2016, and the DoubleTree by Hilton Philadelphia Airport, DoubleTree by Hilton Laurel, DoubleTree by Hilton Jacksonville Riverfront, Crowne Plaza Hollywood Beach Resort, and The White Hall, for the period ended December 31, 2015, are considered non-stabilized assets for purposes of the financial covenants.

Dividend Policy

We intend to continue to declare quarterly distributions to our stockholders. The amount of future common stock (and Operating Partnership unit) distributions will be based upon quarterly operating results, general economic conditions, requirements for capital improvements, the availability of debt and equity capital, the Internal Revenue Code's annual distribution requirements and other factors, which the Company's board of directors deems relevant. The amount, timing and frequency of distributions will be authorized by the Company's board of directors and declared by us based upon a variety of factors deemed relevant by our directors, and no assurance can be given that our distribution policy will not change in the future.

In January 2016, we increased the quarterly dividend (distribution) to \$0.085 per common share (and unit).

In April 2016, we increased the quarterly dividend (distribution) to \$0.09 per common share (and unit).

In July 2016, we increased the quarterly dividend (distribution) to \$0.095 per common share (and unit).

Off-Balance Sheet Arrangements

Through a joint venture with a Carlyle subsidiary, until July 30, 2015 we owned a 25.0% indirect, noncontrolling interest in an entity that acquired the 311-room Crowne Plaza Hollywood Beach Resort in Hollywood Beach, Florida in 2007. Pursuant to the joint venture, we had the right to receive a pro rata share of operating surpluses and we had an obligation to fund our pro rata share of operating shortfalls. We also had the opportunity to earn an incentive participation in the net proceeds realized from the sale of the hotel based upon the achievement of certain overall investment returns, in addition to our pro rata share of net sale proceeds. The Crowne Plaza Hollywood Beach Resort was leased to another entity in which we also owned a 25.0% indirect, noncontrolling interest.

Carlyle owned a 75.0% controlling interest in the entities that own and lease the Crowne Plaza Hollywood Beach Resort. Carlyle had the right to dispose of the Crowne Plaza Hollywood Beach Resort without our consent. We accounted for our noncontrolling 25.0% interest in all of these entities under the equity method of accounting.

On July 31, 2015, indirect subsidiaries of the Operating Partnership acquired from Carlyle the remaining 75.0% interest in the entities that own and lease the Crowne Plaza Hollywood Beach Resort. As a result, the Operating Partnership now has a 100% indirect ownership interest in the entities that own the Crowne Plaza Hollywood Beach Resort. The property was refinanced on September 28, 2015 and is encumbered by a \$60.0 million mortgage which matures in September 2025 and requires monthly payments of interest at a rate of 4.913%. The Crowne Plaza Hollywood Beach Resort secures the mortgage.

Inflation

We generate revenues primarily from lease payments from our TRS Lessees and net income from the operations of our TRS Lessees. Therefore, we rely primarily on the performance of the individual properties and the ability of the management company to increase revenues and to keep pace with inflation. Operators of hotels, in general, possess the ability to adjust room rates daily to keep pace with inflation. However, competitive pressures at some or all of our hotels may limit the ability of the management company to raise room rates.

Our expenses, including hotel operating expenses, administrative expenses, real estate taxes and property and casualty insurance are subject to inflation. These expenses are expected to grow with the general rate of inflation, except for energy, liability insurance, property and casualty insurance, property tax rates, employee benefits, and some wages, which are expected to increase at rates higher than inflation.

Geographic Concentration and Seasonality

Our hotels are located in Florida, Georgia, Indiana, Maryland, North Carolina, Pennsylvania, Texas and Virginia. As a result, we are particularly susceptible to adverse market conditions in these geographic areas, including industry downturns, relocation of businesses and any oversupply of hotel rooms or a reduction in lodging demand. Adverse economic developments in the markets in

which we have a concentration of hotels, or in any of the other markets in which we operate, or any increase in hotel supply or decrease in lodging demand resulting from the local, regional or national business climate, could materially and adversely affect us.

The operations of our hotel properties have historically been seasonal. The months of April and May are traditionally strong, as is October. The periods from mid-November through mid-February are traditionally slow with the exception of hotels located in certain markets, namely Florida and Texas, which experience significant room demand during this period.

Critical Accounting Policies

The critical accounting policies are described below. We consider these policies critical because they involve difficult management judgments and assumptions, are subject to material change from external factors or are pervasive, and are significant to fully understand and evaluate our reported financial results.

Investment in Hotel Properties. Hotel properties are stated at cost, net of any impairment charges, and are depreciated using the straight-line method over an estimated useful life of 7-39 years for buildings and improvements and 3-10 years for furniture and equipment. In accordance with generally accepted accounting principles, the controlling interests in hotels comprising our accounting predecessor, MHI Hotels Services Group, and noncontrolling interests held by the controlling holders of our accounting predecessor in hotels acquired from third parties, which were contributed to us in connection with the Company's initial public offering, are recorded at historical cost basis. Noncontrolling interests in those entities that comprise our accounting predecessor and the interests in hotels, other than those held by the controlling members of our accounting predecessor, acquired from third parties are recorded at fair value at the time of acquisition.

We review our hotel properties for impairment whenever events or changes in circumstances indicate the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause us to perform our review include, but are not limited to, adverse changes in the demand for lodging at our properties due to declining national or local economic conditions and/or new hotel construction in markets where our hotels are located. When such conditions exist, management performs a recoverability analysis to determine if the estimated undiscounted future cash flows from operating activities and the estimated proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are found to be less than the carrying amount of a hotel property, an adjustment to reduce the carrying value to the related hotel property's estimated fair market value would be recorded and an impairment loss is recognized.

There were no charges for impairment of hotel properties recorded for the six months ended June 30, 2016.

In performing the recoverability analysis, we project future operating cash flows based upon significant assumptions regarding growth rates, occupancy, room rates, economic trends, property-specific operating costs and future capital expenditures required to maintain the hotel in its current operating condition. We also project cash flows from the eventual disposition of the hotel based upon various factors including property-specific capitalization rates, ratio of selling price to gross hotel revenues and the selling price per room.

Revenue Recognition. Hotel revenues, including room, food, beverage and other hotel revenues, are recognized as the related services are delivered. We generally consider accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If we determine that amounts are uncollectible, which would generally be the result of a customer's bankruptcy or other economic downturn, such amounts will be charged against operations when that determination is made. Revenues are reported net of occupancy and other taxes collected from customers and remitted to governmental authorities. Receivables for amounts earned under various contracts are subject to audit.

Income Taxes. We record a valuation allowance to reduce deferred tax assets to an amount that we believe is more likely than not to be realized. Due to our history of earnings without expiration of loss carryforwards coupled with expected future taxable income of our TRS Lessees, we have not recorded a valuation allowance to reduce our net deferred tax asset as of June 30, 2016. In conjunction with our ongoing analysis, should negative evidence be identified to suggest that the recoverability of our deferred tax assets no longer remains more likely than not, we would record an adjustment to the net deferred tax asset in the period such determination was made.

Recent Accounting Pronouncements

For a summary of recently adopted and newly issued accounting pronouncements, please refer to the *Recent Accounting Pronouncements* section of Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements.

Forward Looking Statements

Information 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 and Section 21E of the Securities Exchange Act of 1934, 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. Forward-looking statements, which are based on certain assumptions and describe our current strategies, expectations, and future plans are generally identified by our use of words, such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity,” and similar expressions, whether in the negative or affirmative, but the absence of these words does not necessarily mean that a statement is not forward-looking. All statements regarding our expected financial position, business and financing plans are forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- national and local economic and business conditions that affect occupancy rates and revenues at our hotels and the demand for hotel products and services;
- risks associated with the hotel industry, including competition, increases in wages, energy costs and other operating costs;
- the magnitude and sustainability of the economic recovery in the hospitality industry and in the markets in which we operate;
- the availability and terms of financing and capital and the general volatility of the securities markets;
- risks associated with the level of our indebtedness and our ability to meet covenants in our debt agreements and, if necessary, to refinance or seek an extension of the maturity of such indebtedness or modify such debt agreements;
- management and performance of our hotels;
- risks associated with maintaining our system of internal controls;
- risks associated with the conflicts of interest of the Company’s officers and directors;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns;
- supply and demand for hotel rooms in our current and proposed market areas;
- risks associated with our ability to maintain our franchise agreements with our third party franchisors;
- our ability to acquire additional properties and the risk that potential acquisitions may not perform in accordance with expectations;
- our ability to successfully expand into new markets;
- legislative/regulatory changes, including changes to laws governing taxation of REITs;
- the Company’s ability to maintain its qualification as a REIT; and
- our ability to maintain adequate insurance coverage.

Additional factors that could cause actual results to vary from our forward-looking statements are set forth under the section titled “Risk Factors” in our Annual Report on Form 10-K and subsequent reports filed with the Securities and Exchange Commission.

These risks and uncertainties should be considered in evaluating any forward-looking statement contained in this report or incorporated by reference herein. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, except as required by law. In addition, our past results are not necessarily indicative of our future results.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes “forward-looking statements” and represents an estimate of possible changes in fair value or future earnings that could occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses. As a result, actual future results may differ materially from those presented. The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates.

To meet in part our long-term liquidity requirements, we will borrow funds at a combination of fixed and variable rates. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. From time to time we may enter into interest rate hedge contracts such as collars and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not intend to hold or issue derivative contracts for trading or speculative purposes.

As of June 30, 2016, we had approximately \$266.9 million of fixed-rate debt and approximately \$67.1 million of variable-rate debt. The weighted-average interest rate on the fixed-rate debt was 5.08%. A change in market interest rates on the fixed portion of our debt would impact the fair value of the debt, but have no impact on interest incurred or cash flows. Our variable-rate debt is exposed to changes in interest rates, specifically the changes in 1-month LIBOR. However, to the extent that 1-month LIBOR does not exceed the 1-month LIBOR floor on the mortgage on the DoubleTree by Hilton Philadelphia Airport of 0.50%, a portion of our variable-rate debt would not be exposed to changes in interest rates. Assuming that the aggregate amount outstanding on the mortgages on the DoubleTree by Hilton Philadelphia Airport, the DoubleTree by Hilton Jacksonville Riverfront and on the Crowne Plaza Tampa Westshore remain at approximately \$67.1 million, the balance at June 30, 2016, the impact on our annual interest incurred and cash flows of a one percent increase in 1-month LIBOR would be approximately \$0.7 million.

As of December 31, 2015, we had approximately \$272.6 million of fixed-rate debt and approximately \$52.3 million of variable-rate debt. The weighted-average interest rate on the fixed-rate debt was 5.58%. A change in market interest rates on the fixed portion of our debt would impact the fair value of the debt, but have no impact on interest incurred or cash flows. Our variable-rate debt is exposed to changes in interest rates, specifically the changes in 1-month LIBOR. However, to the extent that 1-month LIBOR does not exceed the 1-month LIBOR floor on the mortgage on the DoubleTree by Hilton Philadelphia Airport of 0.50%, a portion of our variable-rate debt would not be exposed to changes in interest rates. Assuming that the aggregate amount outstanding on the mortgage on the DoubleTree by Hilton Philadelphia Airport and the mortgage on the DoubleTree by Hilton Jacksonville Riverfront remains at approximately \$52.2 million, the balance at December 31, 2015, the impact on our annual interest incurred and cash flows of a one percent increase in 1-month LIBOR would be approximately \$0.5 million.

Item 4. Controls and Procedures

Sotherly Hotels Inc.

Disclosure Controls and Procedures

The Company's management, under the supervision and participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act), as of June 30, 2016. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2016, its disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed in its reports filed under the Exchange Act is recorded, processed, summarized and reported with the time periods specified in the SEC's rules and instructions, and (ii) information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of the controls can provide absolute assurance that all control issues and instances of fraud, if any, within Sotherly Hotels Inc. have been detected.

Changes in Internal Control over Financial Reporting

There was no change in Sotherly Hotels Inc.'s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during Sotherly Hotels Inc.'s last fiscal quarter that materially affected, or is reasonably likely to materially affect, Sotherly Hotels Inc.'s internal control over financial reporting.

Disclosure Controls and Procedures

The Operating Partnership's management, under the supervision and participation of the Chief Executive Officer and Chief Financial Officer of Sotherly Hotels Inc., as general partner, has evaluated the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act), as of June 30, 2016. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2016, the disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed in the reports filed under the Exchange Act is recorded, processed, summarized and reported with the time periods specified in the SEC's rules and instructions, and (ii) information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The Operating Partnership's management, including the Chief Executive Officer and Chief Financial Officer of Sotherly Hotels Inc., as general partner, does not expect that the disclosure controls and procedures or the internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of the controls can provide absolute assurance that all control issues and instances of fraud, if any, within Sotherly Hotels LP have been detected.

Changes in Internal Control over Financial Reporting

There was no change in Sotherly Hotels LP's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during Sotherly Hotels LP's last fiscal quarter that materially affected, or is reasonably likely to materially affect, Sotherly Hotels LP's internal control over financial reporting.

PART II

Item 1. *Legal Proceedings*

We are not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. We believe that these routine legal proceedings, in the aggregate, are not material to our financial condition and results of operations.

Item 1A. *Risk Factors*

Except as set forth below, there have been no material changes in our risk factors from those disclosed in our annual report on Form 10-K for the year ended December 31, 2015.

If MHI Holding exceeds certain value thresholds, this could cause the Company to fail to qualify as a REIT.

For taxable years of the Company ending on or before December 31, 2017, at the end of each quarter of each taxable year of the Company, no more than 25% of the value of the Company's total assets may consist of securities of one or more taxable REIT subsidiaries ("TRSs"). For taxable years of the Company ending after December 31, 2017, at the end of each quarter of each taxable year of the Company, no more than 20% of the value of the Company's total assets may consist of securities of one or more TRSs. MHI Holding is a TRS and the Company may form other TRSs in the future. The Company plans to monitor the value of its shares of MHI Holding and of any other TRS the Company may form. However, there can be no assurance that the Internal Revenue Service will not attempt to attribute additional value to the shares of MHI Holding or to the shares of any other TRS that the Company may form. If the Company is treated as owning securities of one or more TRSs with an aggregate value that is in excess of the thresholds outlined above, the Company could lose its status as a REIT or become subject to penalties.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

From time to time, the Operating Partnership issues limited partnership units to the Company, as required by the Partnership Agreement, to mirror the capital structure of the Company to reflect additional issuances by the Company and to preserve equitable ownership ratios.

Item 3. *Defaults upon Senior Securities*

Not applicable.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

Not applicable.

Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Articles of Amendment and Restatement of the Company (incorporated by reference to the document previously filed as Exhibit 3.1 to the Company's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-11 filed with the Securities and Exchange Commission on October 20, 2004 (File No. 333-118873)).
3.3	Amended and Restated Agreement of Limited Partnership of Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 3.3 to the Company's Pre-Effective Amendment No. 5 to its Registration Statement on Form S-11 filed with the Securities and Exchange Commission on December 13, 2004 (File No. 333-118873)).
3.4	Articles Supplementary of the Company (incorporated by reference to the document previously filed as Exhibit 3.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 18, 2011).
3.6	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 3.6 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 18, 2011).
3.7	Articles of Amendment to the Articles of Amendment and Restatement of the Company, effective as of April 16, 2013 (incorporated by reference to the document previously filed as Exhibit 3.7 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 16, 2013).
3.8	Second Amended and Restated Bylaws of the Company, effective as of April 16, 2013 (incorporated by reference to the document previously filed as Exhibit 3.8 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 16, 2013).
3.9	Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 3.3 to the Operating Partnership's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-11 filed with the Securities and Exchange Commission on August 9, 2013 (File No. 333-189821)).
4.0	Form of Common Stock Certificate (incorporated by reference to the document previously filed as Exhibit 4.0 to the Company's Pre-Effective Amendment No. 5 to its Registration Statement on Form S-11 filed with the Securities and Exchange Commission on December 13, 2004 (File No. 333-118873)).
4.6	Senior Unsecured Note issued by Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 4.6 to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, filed with the Securities and Exchange Commission on November 7, 2013).
4.7	Indenture between Sotherly Hotels LP and Wilmington Trust, National Association, as trustee (incorporated by reference to the document previously filed as Exhibit 4.7 to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, filed with the Securities and Exchange Commission on November 7, 2013).
4.8	Indenture by and among Sotherly Hotels Inc., Sotherly Hotels LP and Wilmington Trust, National Association, as trustee, dated November 21, 2014 (incorporated by reference to the document previously filed as Exhibit 4.8 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 21, 2014).
4.9	First Supplemental Indenture by and among Sotherly Hotels Inc., Sotherly Hotels LP and Wilmington Trust, National Association, as trustee, dated November 21, 2014 (incorporated by reference to the document previously filed as Exhibit 4.9 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 21, 2014).
4.10	7.00% Senior Unsecured Note due 2019, issued by Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 4.10 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission on April 14, 2015).
10.54	Agreement for Sale and Purchase of Property by and between Hampton Hotel Associates LLC, Three Capital Hotels, Inc., and Ajitkumar B. Patel, dated as of April 29, 2016.
10.55	Amendment to the Agreement for Sale and Purchase of Property by and between Hampton Hotel Associates LLC, Three Capital Hotels, Inc., and Ajitkumar B. Patel, dated as of June 10, 2016.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules Rule 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules Rule 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company.
31.3	Certification of Chief Executive Officer pursuant to Exchange Act Rules Rule 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Operating Partnership.
31.4	Certification of Chief Financial Officer pursuant to Exchange Act Rules Rule 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Operating Partnership.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company.
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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.

Date: August 11, 2016

SOTHERLY HOTELS INC.

By: /s/ Andrew M. Sims
Andrew M. Sims
Chief Executive Officer

By: /s/ Anthony E. Domalski
Anthony E. Domalski
Chief Financial Officer

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.

Date: August 11, 2016

SOTHERLY HOTELS LP

By: SOTHERLY HOTELS INC.
Its General Partner

By: /s/ Andrew M. Sims
Andrew M. Sims
Chief Executive Officer

By: /s/ Anthony E. Domalski
Anthony E. Domalski
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Articles of Amendment and Restatement of the Company (incorporated by reference to the document previously filed as Exhibit 3.1 to the Company's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-11 filed with the Securities and Exchange Commission on October 20, 2004 (File No. 333-118873)).
3.3	Amended and Restated Agreement of Limited Partnership of Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 3.3 to the Company's Pre-Effective Amendment No. 5 to its Registration Statement on Form S-11 filed with the Securities and Exchange Commission on December 13, 2004 (File No. 333-118873)).
3.4	Articles Supplementary of the Company (incorporated by reference to the document previously filed as Exhibit 3.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 18, 2011).
3.6	Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 3.6 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 18, 2011).
3.7	Articles of Amendment to the Articles of Amendment and Restatement of the Company, effective as of April 16, 2013 (incorporated by reference to the document previously filed as Exhibit 3.7 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 16, 2013).
3.8	Second Amended and Restated Bylaws of the Company, effective as of April 16, 2013 (incorporated by reference to the document previously filed as Exhibit 3.8 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 16, 2013).
3.9	Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 3.3 to the Operating Partnership's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-11 filed with the Securities and Exchange Commission on August 9, 2013 (File No. 333-189821)).
4.0	Form of Common Stock Certificate (incorporated by reference to the document previously filed as Exhibit 4.0 to the Company's Pre-Effective Amendment No. 5 to its Registration Statement on Form S-11 filed with the Securities and Exchange Commission on December 13, 2004 (File No. 333-118873)).
4.6	Senior Unsecured Note issued by Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 4.6 to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, filed with the Securities and Exchange Commission on November 7, 2013).
4.7	Indenture between Sotherly Hotels LP and Wilmington Trust, National Association, as trustee (incorporated by reference to the document previously filed as Exhibit 4.7 to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, filed with the Securities and Exchange Commission on November 7, 2013).
4.8	Indenture by and among Sotherly Hotels Inc., Sotherly Hotels LP and Wilmington Trust, National Association, as trustee, dated November 21, 2014 (incorporated by reference to the document previously filed as Exhibit 4.8 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 21, 2014).
4.9	First Supplemental Indenture by and among Sotherly Hotels Inc., Sotherly Hotels LP and Wilmington Trust, National Association, as trustee, dated November 21, 2014 (incorporated by reference to the document previously filed as Exhibit 4.9 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 21, 2014).
4.10	7.00% Senior Unsecured Note due 2019, issued by Sotherly Hotels LP (incorporated by reference to the document previously filed as Exhibit 4.10 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission on April 14, 2015).
10.54	Agreement for Sale and Purchase of Property by and between Hampton Hotel Associates LLC, Three Capital Hotels, Inc., and Ajitkumar B. Patel, dated as of April 29, 2016.
10.55	Amendment to the Agreement for Sale and Purchase of Property by and between Hampton Hotel Associates LLC, Three Capital Hotels, Inc., and Ajitkumar B. Patel, dated as of June 10, 2016.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules Rule 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company.

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Section 2: EX-10.54 (EX-10.54)

EXHIBIT 10.54

AGREEMENT FOR SALE AND PURCHASE OF PROPERTY

This AGREEMENT FOR SALE AND PURCHASE OF PROPERTY (the “Agreement”) is dated April 29, 2016 (the “Effective Date”) by and between HAMPTON HOTEL ASSOCIATES LLC, a Delaware limited liability company, (“Seller”); and THREE CAPITAL HOTELS, INC., a Virginia corporation (“Buyer”); and AJITKUMAR B. PATEL (“Guarantor”).

RECITALS:

A. Seller owns and operates the Crowne Plaza Marina Hotel of Hampton (the “Hotel”) located at 700 and 702 Settlers Landing Road, Hampton, Virginia.

B. Seller desires to sell to Buyer and Buyer desires to purchase from Seller, on the following terms and conditions and for the price herein set forth, the Hotel and all related assets used in the operation of the Hotel.

ARTICLE I. DEFINED TERMS

1.1 Definitions. As used herein, the following terms shall have the following meanings:

- (a) “Additional Deposit” means the amount of One Hundred Thousand and No/100 Dollars (\$100,000.00) paid by Buyer in accordance with Section 3.2.
- (b) “Agreement” has the meaning set forth in the opening paragraph.
- (c) “Bill of Sale” shall mean the bill of sale conveying title to the Personal Property to Buyer.
- (d) “Business Day” shall mean any day on which business is conducted by national banking institutions in Hampton, Virginia.
- (e) “Closing” shall mean the consummation of the transactions contemplated in this Agreement.
- (f) “Closing Date” shall mean the date which is not more than thirty (30) days after the Feasibility Date, unless extended by Buyer pursuant to Section 5.1.
- (g) “Closing Extension Deposit” shall mean the amount of One Hundred Thousand and No/100 Dollars (\$100,000.00) held by the Escrow Agent if paid by Buyer in accordance with Section 5.1.
- (h) “City” shall mean the City of Hampton, Virginia.
- (i) “Contract” shall mean any service, maintenance, supply, management, operating, or employment contract or other agreement, however termed, written or oral, affecting the use, ownership, management, maintenance, or operation of all or any part of the Property as listed on Schedule 1.1(i).

- (j) “Deed” shall mean the special warranty deed conveying fee title to the Real Property to Buyer, duly executed by Seller and acknowledged and in proper form for recordation.
- (k) “Deposit” shall mean the amount from time to time held by Escrow Agent as Buyer’s earnest money deposit paid in accordance with: (i) Section 3.2 (Initial Deposit and Additional Deposit) and (ii) Buyer’s Closing Extension Deposit, if paid in accordance with Section 5.1. The Deposit shall be paid in accordance with Section 3.2 and Section 5.1, respectively, and shall be increased to the extent that interest accrues thereon. All accrued interest shall belong to Buyer up to and through the Feasibility Date. Thereafter the Deposit, with interest, shall belong to Seller, subject to the provisions set forth herein concerning the disposition of the Deposit, and provided that such Deposit and interest thereon shall be credited against the Purchase Price at Closing.
- (l) “Due Diligence Reports” shall mean all reports, documents, studies, analyses, and other written information obtained by Buyer with respect to the Property, including results of physical inspections, engineering studies, engineering drawings and specifications, surveys, Hazardous Materials Reports, soil tests, site plans, feasibility studies, market studies, architectural plans, specifications and drawings, title reports, permits, approvals and authorizations (whether obtained from governmental authorities or third parties); and all other work product generated by or for Buyer in connection with the Property.
- (m) “Effective Date” has the meaning set forth in the opening paragraph of this Agreement.
- (n) “Escrow Agent” shall mean Willcox & Savage, P.C., 440 Monticello Avenue, Suite 2200, Norfolk, Virginia 23510.
- (o) “Feasibility Date” shall mean 5:00 PM EDT on the date that is forty-five (45) days after the Effective Date.
- (p) “Franchise Agreement” shall mean the following agreement in customary form and substance: (i) that certain franchise agreement by and between Buyer and InterContinental Hotels Group PLC for the operation of the Hotel as a Crowne Plaza Hotel and Resort franchise.
- (q) “Hazardous Materials” shall mean any toxic, radioactive, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics. The term “Hazardous Materials” includes, without limitation, any substance regulated under any and all federal, state and local statutes, laws (including case law), regulations, ordinances, rules, judgments, orders, decrees, codes, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions, whether now or hereafter in effect, relating to human health, the environment or to emissions,

discharges or releases of pollutants, contaminants, toxic substances, hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Materials or wastes or the clean-up or other remediation thereof.

- (r) “Hazardous Materials Reports” shall mean any and all studies, reports, analyses, information, or other written records regarding the presence of Hazardous Materials at, on, in, under or relating to the Land.
- (s) “Hotel” has the meaning set forth in the Recitals.
- (t) “Initial Deposit” shall mean the amount of One Hundred Thousand and No/100 Dollars paid by Buyer in accordance with Section 3.2.
- (u) “Intangibles” shall mean all trademarks, trade names, service marks, franchises, domain names, website and other intangible rights, owned or licensed and used or held for use by Seller as of the date of this Agreement.
- (v) “Land” shall mean that certain parcel of real property located in the City as more particularly described on EXHIBIT A, attached hereto and made a part hereof.
- (w) “Leases” shall mean all leases and/or occupancy rights (other than occupancy rights of Hotel guests) with respect to the Real Property as listed on Schedule 1.1(w).
- (x) “Personal Property” shall mean (i) all tangible personal property and fixtures owned by Seller and located on or attached to the Real Property as more specifically described on the attached Schedule 1.1(x), including, without limitation, Supply Inventories, (ii) Seller’s interest in all transferable licenses or permits with respect to the Real Property and the Hotel, (iii) Seller’s interest in all transferable Contracts relating to the ownership or operation of the Real Property and the Hotel (iv) Seller’s interest in all transferable warranties or guaranties relating to the Real Property and the Hotel, and (v) Intangibles. Personal Property does not include property owned by others such as hotel guests, Tenants under Leases or parties to Contracts. Personal Property shall not include insurance policies, utility deposits, bank accounts, cash on hand, cash equivalents or cash on deposit.
- (y) “Property” shall mean, collectively, the Real Property and the Personal Property not excluded from this Agreement.
- (z) “Real Property” shall mean the Land together with Seller’s interest in the buildings and other improvements and fixtures located on the Land.
- (aa) “Security Deposits” shall mean the security deposits, if any, in Seller’s possession with respect to the Leases and which have not been forfeited by Tenants before

Closing. Security Deposits shall not include any security deposits, whether or not provided for in the Leases, that were paid to Seller's predecessor(s) in interest to the Property and that were not delivered to Seller and are not in Seller's possession.

- (bb) "Seller Group" shall mean Seller and its past, present, and future officers, directors, shareholders, agents, representatives, successors, and assigns and their respective heirs, successors, and assigns.
- (cc) "Seller's Knowledge" shall mean the knowledge, information and belief of Seller based upon the knowledge, information and belief of its officers, directors, employees and agents.
- (dd) "Supply Inventories" shall mean all of Seller's right, title, and interest in and to all china, glassware, silverware, cutlery, linens, uniforms, works of art, materials and supplies existing as of the Closing Date and used in connection with the operation of the Real Property and the Hotel, including (i) reserve stocks of operating supplies not in use, (ii) engineering supplies, (iii) guest supplies, (iv) housekeeping supplies and (v) office supplies. Supply Inventories shall mean only such items as exist on the Closing Date and shall not include any such items owned by hotel guests, Tenants, or other third parties.
- (ee) "Tenants" shall mean those persons or entities holding rights of tenants under the Leases.
- (ff) "Title Commitment" shall mean the commitment for the issuance of an owner's title insurance policy to be issued by the Title Company in favor of Buyer in the full amount of the Purchase Price and obtained by Buyer pursuant to Section 4.1.
- (gg) "Title Company" shall mean a nationally recognized title insurance company selected by Buyer to issue the Title Commitment and the owner's title insurance policy to Buyer in accordance with the terms hereof.
- (hh) "VDEQ" shall mean the Virginia Department of Environmental Quality.

1.2 Other Defined Terms. Other capitalized terms contained in this Agreement shall have the meanings ascribed to them herein.

ARTICLE II. INSPECTION

2.1 Information Regarding Property. Seller has or will provide to Buyer within ten (10) Business Days of the Effective Date the documents and information on attached Schedule 2.1 pertaining to the Property, all of which Buyer agrees shall be used only for conducting due diligence hereunder and kept confidential except to the extent such information must be shared with third parties such as Buyer's title insurance company, engineers, surveyors, etc. in furtherance of its due diligence investigations.

2.2 Buyer's Inspection Rights.

- (a) Buyer shall have until the Feasibility Date to determine whether the Property is acceptable to Buyer with respect to any and all matters that Buyer desires to investigate including, but not limited to, title, survey, financing, physical, electrical, mechanical and environmental matters and zoning.
- (b) If Buyer finds the Property to be unacceptable and elects not to proceed with the transaction contemplated hereby, Buyer shall give, on or before the Feasibility Date, written notice of termination to Seller. If Buyer shall give written notice of termination to Seller before the Feasibility Date, this Agreement shall be terminated. Upon such termination the Deposit shall be returned to Buyer within two (2) Business Days and neither party shall have any further rights or obligations hereunder, except, however, that Buyer shall remain obligated with respect to the indemnities and obligations contained in Sections 2.4 and 2.5 and any other provisions that expressly survive termination or expiration of this Agreement.
- (c) If Buyer fails to give written notice of termination to Seller on or before the Feasibility Date, Buyer shall be deemed to have found the Property acceptable in all respects and this Agreement shall remain in full force and effect and the Deposit shall be applied as provided in this Agreement.
- (d) Seller shall thereafter convey to Buyer at Closing (i) fee simple title to the Real Property by the Deed, free and clear of all liens and encumbrances and (ii) the Personal Property by the Bill of Sale, free and clear of all liens and encumbrances, both in accordance with the provisions of this Agreement.

2.3 Access and Liability Insurance. Buyer and Buyer's agents and contractors shall be entitled to enter the Property at all reasonable times as agreed on by Buyer and Seller in advance, which agreement shall not be unreasonably withheld or delayed, but only for the purpose of conducting tests and making site inspections and investigations during this Agreement. Buyer shall give Seller not less than forty-eight hours' advance notice of any proposed entry so that Seller's general manager can be present during the exercise of any such right of entry. In exercising any such right of entry, Buyer agrees that Buyer and Buyer's agents and contractors shall conduct all communications relating to the Property through Buyer's general manager and shall not contact or communicate with other employees of Seller. In doing so, however, Buyer agrees not to cause any damage or make any physical changes to the Property or interfere with the rights of Tenants or others who may have a legal right to use or occupy the Property. Under no circumstances shall the right of entry granted herein be interpreted as delivery of possession of the Property before Closing. Buyer shall maintain at all times during its entry on the Property, comprehensive general liability insurance with limits of not less than One Million Dollars combined single limit, bodily injury, death and property damage insurance per occurrence and provide to Seller proof thereof.

- 2.4 Indemnification. Buyer shall protect, defend, indemnify, save and hold harmless Seller Group against any and all claims, demands, fines, suits, actions, proceedings, orders, decrees, judgments, damage or liability (including reasonable attorneys' fees incurred by Seller with respect thereto) of any kind or nature, by or in favor of anyone whomsoever, resulting from, arising from, or occasioned in whole or in part by any act or omission by Buyer, its agents, contractors, employees, representatives or invitees in, on, or at the Property before Closing from Buyer's inspection, examination and inquiry of or on the Property; provided, however, that Buyer shall not have any duty to protect, defend, indemnify, save and hold harmless Seller Group from any such claims, demands, fines, suits, actions, proceedings, orders, decrees, judgments, damage or liability that arise from the gross negligence or willful misconduct of Seller Group.
- 2.5 Buyer's Obligations with Respect to Inspections. Buyer shall restore the Property to its original condition promptly after Buyer's factual, physical and legal examinations and inspections of the Property. Buyer shall promptly pay for all inspections and Due Diligence Reports on the rendering of statements therefor. Buyer shall not suffer or permit the filing of any liens against the Property and if any such liens are filed, Buyer shall promptly cause them to be released or otherwise eliminated from being a lien on the Property. If the transaction contemplated by this Agreement is not closed for any reason whatsoever, Buyer shall remain obligated with respect to the indemnities and other obligations contained in Sections 2.4 and 2.5 of this Agreement.

ARTICLE III.

PURCHASE PRICE AND TERMS OF PAYMENT; CLOSING ADJUSTMENTS

- 3.1 Purchase Price. The total purchase price ("Purchase Price") of the Property shall be Five Million Eight Hundred Thousand and No/100 Dollars (\$5,800,000.00). The parties agree to allocate the Purchase Price, and report such allocation on their tax returns, in accordance with Internal Revenue Code §1060 as set forth on Schedule 3.1.
- 3.2 Payment of Purchase Price. The Purchase Price shall be paid as follows:
- (a) Deposit (Initial Deposit and Additional Deposit, if Applicable). Upon execution of this Agreement, Buyer, within two Business Days of the Effective Date, shall deliver in escrow to the Escrow Agent the Initial Deposit by cashier's check or by wire transfer. The Initial Deposit is consideration for the rights granted to Buyer to purchase the Property and shall be deemed non-refundable after the Feasibility Date, unless notice is given in accordance with Section 2.2 or following Seller default. Provided that Buyer executes all necessary forms required by the Escrow Agent, the Deposit shall be held in an interest-bearing account with a federally insured banking institution. Any interest accrued thereon shall become a part of the Deposit to be applied or disposed of in the same manner as the Deposit. If Buyer does not terminate this Agreement on or before the Feasibility Date, Buyer shall deliver in escrow to the Escrow Agent the Additional Deposit which shall become part of the Deposit upon delivery, shall be non-refundable, and shall be held by the Escrow Agent in accordance with the provisions of this Agreement.

At the Closing, Buyer shall receive a credit against the Purchase Price in the amount of the Deposit, and the Deposit shall be delivered to Seller.

- (b) Payment at Closing. The balance of the Purchase Price, shall be paid by Buyer by wire transfer at the time of Closing.

3.3 Prorations; Adjustments; Closing Costs. The following adjustments and prorations shall be computed as of the Closing Date and the Purchase Price shall be adjusted at Closing to reflect such prorations. All items of revenue, cost and expense of the Property with respect to the period before the Closing Date shall be for the account of Seller. All items of revenue, cost and expense of the Property with respect to the period on and after the Closing Date shall be for the account of Buyer. All prorations shall be based on a 30-day month. Buyer acknowledges that it shall be solely responsible for liabilities expressly assumed by Buyer in this Agreement and any expense related to the Hotel and Leases, and to Contracts, if any, assumed by Buyer with respect to the period on and after the Closing Date (the "Assumed Liabilities") and shall also be entitled to all revenues with respect to the period on and after the Closing Date specifically excluding revenues related to lodging the night before the Closing Date, which shall be the property of Seller.

- (a) Payables. Seller shall pay on or before the Closing Date all of Seller's accounts payable incurred in the ordinary course of business in connection with the ownership and operation of the Hotel including, but not limited to, amounts payable to vendors and other trade payables, amounts payable under the Contracts (collectively, the "Payables") attributable to Seller's ownership and operation of the Property before the Closing Date except those Payables that are not due and payable as of the Closing Date (the "Outstanding Payables") which Seller and Buyer agree to prorate as of the Closing Date. Seller agrees that between the Effective Date and the Closing Date all payables shall be paid and discharged in the ordinary course of business. Any Payables as of the Closing Date relating to the operation of the Hotel before the Closing Date and not discovered until after the Closing Date but in no event more than ninety (90) days after the Closing Date, shall be paid by Seller at such time as they are discovered or due as the case may be, and Buyer shall have no responsibility therefor.

- (b) Cash, Accounts Receivable.

- (i) Seller shall receive a credit for any and all cash in the cash registers, vaults, safes, (other than that belonging to guests) and/or "petty cash boxes" or similar cash receptacles as of the Closing Date that is transferred to Buyer.
- (ii) All of Seller's accounts receivable incurred in the ordinary course of business in connection with the ownership and operation of the Hotel, including net amounts subject to collection from credit card operations and other trade receivables as of the Closing Date and relating to periods before the Closing Date, except lodging the night before the Closing Date, are called the "Accounts Receivable." All Accounts Receivable shall

remain the property of Seller. Seller shall use its best efforts to collect all Accounts Receivable before the Closing Date. Seller shall deliver to Buyer on the Closing Date a list of all uncollected Accounts Receivable balances originating before the Closing Date and owed to Seller from Tenants, guests or patrons of the Hotel as Schedule 3.3(b)(ii). Seller shall use its best efforts to cause the Accounts Receivable to be paid directly to Seller after the Closing. If, after the Closing, any Accounts Receivable are nevertheless paid to Buyer, such Accounts Receivable will remain the property of Seller, and Buyer shall forward such Accounts Receivable to Seller within five (5) days of receipt thereof. If Buyer fails to forward such receivables within such five-day period, Buyer shall pay Seller a late fee equal to 10% of the amount received. Buyer shall cooperate with Seller in connection with the collection of the Accounts Receivable and shall provide Seller with reasonable access to Buyer's books and records with regard to any Accounts Receivable collected by Buyer.

- (c) Deposits and Rents. All collected rents, deposits and other payments from Tenants under the Leases (excluding Advance Booking Deposits which are addressed in Section 3.3(j) below) that have been delivered to Seller shall be prorated between Seller and Buyer as of the Closing Date. The balance remaining from any security deposits or prepaid rent held by Seller after deductions previously made by Seller shall be transferred to Buyer. If any rent or other payments under the Leases are in arrears as of the Closing Date ("Delinquent Rents"), the amount of any such Delinquent Rents that are attributable to any period before the Closing Date shall be paid by Buyer to Seller after the Closing if received by Buyer. Buyer shall use commercially reasonable efforts to attempt to collect on Seller's account any such amounts. Buyer shall be entitled to deduct from any payments received by Buyer from any Tenants who owe Delinquent Rents (i) first, Buyer's reasonable costs of collection incurred with respect to such payments (including reasonable attorneys' fees); (ii) second, rents due for the month in which such payment is received by Buyer; and (iii) third, rents from such Tenant attributable to any period after the Closing Date that are past due on the date of receipt. Notwithstanding the foregoing, percentage rents, if any, under the Leases shall be equitably prorated as agreed by Seller and Buyer.
- (d) Taxes and Assessments. Taxes and assessments for the year of Closing shall be prorated as of the Closing Date if the amount of such taxes is known at the time of Closing. If such amount cannot be then ascertained, proration shall be based on the amount of the taxes for the preceding year. If any tax proration shall be based on the amount of taxes for the year preceding the year of Closing, such taxes, at the request of either party, shall be re-prorated and adjusted between the parties as soon as reasonably practicable after the tax bills for the year of Closing are received. Public liens, if any, certified or for which the work has been substantially completed on the date of Closing shall be paid by Seller and any other such liens shall be assumed by Buyer.
- (e) [Intentionally deleted.]

- (f) Fuel, Water and Utility Charges. Fuel, water and utility charges shall be estimated, adjusted and apportioned on the basis of the last meter reading as of the Closing Date. If there are meters on the Real Property, Seller shall furnish readings to date not more than three (3) days before the Closing Date, and the unread meter charges, if any, based thereon for the intervening time shall be apportioned on the basis of such last reading. Readings will be secured for all utilities as close as practicable to the Closing Date.
- (g) Sewer and Stormwater Charges. Sewer and stormwater charges, if any, shall be estimated, adjusted and apportioned as per custom as of the Closing Date.
- (h) Income and Deposits. Income from telephone, vending machines and other coin-operated devices on the Real Property, if any, shall be adjusted and apportioned as of the Closing Date. Deposits, if any, made by Seller, the manager of the hotel on behalf of Seller, or any predecessor in title as security under any utility or public service contract shall be credited to Seller to the extent that the same remains on deposit and is verified by the holder thereof for the benefit, and in the name of, Buyer. If such deposits cannot remain on deposit for the benefit of Buyer, Buyer shall place new deposits with the utility company(ies) and the existing deposits shall be released to Seller.
- (i) Fees for Licenses and Permits. Fees paid or payable, if any, for licenses and permits shall be adjusted and apportioned as of the Closing Date to the extent such licenses and permits are assumed by Buyer.
- (j) Advance Booking Deposits. Deposits in connection with advance bookings for future occupancy or use, after the Closing Date, of hotel rooms, suites, banquet and meeting rooms, and convention or restaurant facilities in the Hotel by any person, organization or group, are herein called "Advance Booking Deposits" and shall be revised and re-certified by Seller as of the Closing Date. The aggregate amount of deposits in connection with the Advance Booking Deposits and any other deposits, advances or advance payments in connection with the operation of the Hotel shall be credited to Buyer.
- (k) Contracts. All prepayments made under any continuing Contracts affecting the Real Property, if any, shall be adjusted and apportioned as of the Closing Date to the extent such agreements are assumed by Buyer which assumption, if any, shall be in Buyer's sole discretion.
- (l) Other Customary Prorations. All other verifiable charges and fees customarily prorated and adjusted in similar transactions shall be adjusted and apportioned as of the Closing Date. If accurate prorations and other adjustments cannot be made at Closing because current bills or statements are not obtainable (as, for example, utility bills), the parties shall prorate on the best available information or as otherwise provided herein.

(m) Intent of Prorations Provisions. The intent of the prorations and adjustments provided for herein is that Seller shall bear all expenses of operation of the Real Property and shall receive all income therefrom accruing before the Closing Date, and Buyer shall bear all expenses of operation and receive all income therefrom accruing on and after the Closing Date, excluding room rents for the night's lodging incurred before the Closing Date. Notwithstanding anything to the contrary set forth herein, with respect to meeting or function room revenues, it is specifically agreed that revenues allocable to the night commencing immediately before the Closing Date shall be for the account of Seller and revenues for meeting or function rooms commencing with the night of the Closing Date shall be for the account of Buyer.

3.4 Costs and Expenses. Buyer shall pay all documentary stamp taxes, recording taxes and other transfer taxes on the Deed, all costs of recording and the title insurance premium for the owner's title insurance policy to be obtained by Buyer and the costs of any of Buyer's lender requirements, if any. Seller shall pay the cost of preparation of all documents required under Section 5.2, and the Virginia Grantor's Tax and any other taxes or fees to be paid by or on behalf of the grantor under Virginia law. Attorneys' fees, consulting fees, and other due diligence expenses shall be borne by the party incurring such expense.

ARTICLE IV.
TITLE: SURVEY

4.1 Evidence of and Encumbrances on Title. As soon as is reasonably practicable, Buyer shall obtain the Title Commitment and promptly deliver a copy thereof to Seller. Buyer may file written objections to exceptions contained in the Title Commitment on or before the Feasibility Date, provided, however, that the following shall be deemed "Acceptable Encumbrances" and Buyer shall not have the right to object to Acceptable Encumbrances:

- (a) Real property taxes and assessments for the year in which the sale and purchase shall be closed, which shall be prorated as provided for herein;
- (b) The standard printed exceptions contained in owner's title insurance policies; and
- (c) Any matters which are approved in writing by Buyer or deemed approved by Buyer in accordance with this Agreement.

If Buyer timely and properly files a written objection to any such item other than an Acceptable Encumbrance, then Seller shall have the option to use reasonable diligence to remove, discharge, or correct such liens, encumbrances or objections and the obligation to pay sums of an ascertainable amount and shall have a period of thirty (30) days after receipt of notice thereof in which to do so (and if necessary the Closing Date may be extended by Seller, but in no event past sixty (60) days following the Feasibility Date, except as mutually agreed by the parties in writing). Seller shall not in any event be obligated to litigate any matter in order to remove, discharge or correct any lien, encumbrance or objection. If Seller is unwilling or unable to remove or discharge such other liens, encumbrances or objections within such period, and notifies Buyer in writing of its decision, then Buyer, at its option, shall notify Seller within five

(5) Business Days of its decision to either terminate this Agreement or accept title in its then existing condition without reduction of the Purchase Price. If Buyer shall elect to terminate this Agreement, the Deposit shall be refunded to Buyer within two (2) Business Days, this Agreement shall terminate, and thereafter neither Seller nor Buyer shall have any further rights or obligations hereunder except that Buyer shall remain obligated with respect to the provisions of Sections 2.4 and 2.5 hereof. If Buyer fails to give written notice of objection to Seller on or before the Feasibility Date, all matters reflected on the Title Commitment shall be deemed to be Acceptable Encumbrances and this Agreement shall remain in full force and effect and Buyer shall be obligated to complete the transaction as required by this Agreement.

ARTICLE V.
CLOSING

- 5.1 Time and Place. Closing shall take place at 10:00 A.M. on the Closing Date; provided, however, that pursuant to Section 4.1 Seller, at Seller's option, may extend the Closing Date for purposes of curing objections to the status of title that were timely and properly raised by Buyer. Buyer may extend the Closing Date an additional thirty (30) days by giving written notice to Seller on or before the Closing Date and by delivering to the Escrow Agent in escrow the Closing Extension Deposit by cashier's check or by wire transfer, which Closing Extension Deposit shall thereupon become part of the Deposit and held by the Escrow Agent as part of the Deposit in accordance with the provisions of this Agreement. Closing shall be held at the Hotel, or at such other place as the Buyer and Seller may mutually agree. Failure to close as set forth above shall constitute a breach hereunder.
- 5.2 Seller's Deliveries. At Closing, Seller shall deliver or cause to be delivered to Buyer the following items (executed on behalf of the appropriate entities and by the appropriate individuals, where applicable):
- (a) The Deed in the form of attached Exhibit B;
 - (b) A Seller's Affidavit related to the Real Property in a form as is reasonably required by Buyer's attorney or the Title Company;
 - (c) A Bill of Sale with respect to the Personal Property, licenses and permits, in the form of attached Exhibit C;
 - (d) An Assignment and Assumption Agreement ("Assignment and Assumption Agreement"), in the form of attached Exhibit D;
 - (e) Form letter reasonably satisfactory to Buyer's attorney executed by Seller to advise all Tenants under Leases and all contractors under Contracts of the sale to Buyer;
 - (f) Unforfeited Security Deposits in Seller's possession, if any, shall be transferred to Buyer unless credited to Buyer against the Purchase Price;

- (g) Closing Statement (“Closing Statement”) reflecting all financial aspects of the transaction;
- (h) All keys and security codes in Seller’s actual possession with respect to the Property;
- (i) Duly adopted resolutions or a consent in writing of Seller authorizing Seller to consummate the transaction contemplated hereby and to perform all of Seller’s obligations hereunder;
- (j) Certificate of Good Standing from the State of Delaware showing Seller as duly organized, validly existing and in good standing under the laws of the State of Delaware as a Delaware limited liability company;
- (k) Incumbency Certificate as to the existing managers of Seller;
- (l) A Certificate recertifying the representations, warranties and covenants of Seller contained herein as of the Closing Date;
- (m) A list of Outstanding Payables; and
- (n) Such other usual and customary documentation or deliveries as may be reasonably requested by Buyer.

5.3 Buyer’s Deliveries. At Closing, Buyer shall deliver or cause to be delivered to Seller the following items (executed on behalf of the appropriate entities and by the appropriate individuals, where applicable):

- (a) Cash to close in the amount required by Article III, together with any other amounts as required herein, by wire transfer to Seller’s account;
- (b) Assignment and Assumption Agreement;
- (c) Closing Statement;
- (d) A Certificate recertifying the representations, warranties and covenants of Buyer contained herein as of the Closing Date;
- (e) Duly adopted resolutions or consent in writing of Buyer authorizing Buyer to consummate the transaction contemplated hereby and to perform all of Buyer’s obligations hereunder;
- (f) Incumbency Certificate as to the existing officers and directors of Buyer;
- (g) The Franchise Agreement (if applicable); and
- (h) Such other usual and customary documentation or deliveries as may be reasonably requested by Seller.

- 5.4 Possession. Possession of the Property shall be surrendered to Buyer at Closing.
- 5.5 Contingencies. Notwithstanding anything to the contrary contained herein, Buyer's and Seller's obligation to proceed to Closing is specifically contingent on Seller and Buyer, respectively, having performed all obligations required to be performed by each such party under this Agreement on or before the Closing Date.

ARTICLE VI.
LICENSES AND PERMITS

6.1 Licenses and Permits.

- (a) Buyer acknowledges that it is the responsibility of Buyer to obtain the approval of the applicable governmental authorities for issuance of such licenses and permits as shall be necessary or desirable in Buyer's opinion to operate the Hotel. Buyer shall file any and all applications and supporting documents with the appropriate governmental agencies, at Buyer's cost, and expense. Seller agrees to cooperate with Buyer (but without cost to Seller) in the filing of such applications, to the extent such cooperation may be required by governmental agencies issuing or approving the licenses and permits.
- (b) Buyer hereby assumes the risk of failing to obtain any licenses and permits relating to the Hotel, and the refusal of any governmental authority to grant said licenses and permits shall not give Buyer any rights, remedies or causes of action against Seller for damages, for termination of this Agreement or any other relief whatsoever.

ARTICLE VII.
SELLER'S AND BUYER'S CONTINUING COVENANTS

7.1 Seller's Pre-Closing Covenants. Seller covenants and agrees that between the Effective Date and the Closing Date, Seller shall:

- (a) continue to operate the Hotel substantially in accordance with Seller's past practices;
- (b) not intentionally terminate, breach or amend, without Buyer's prior written consent, any existing Leases, licenses and permits or Contracts except that termination will be permitted in the event of default by the other party or, in the case of Contracts, if replaced by a comparable Contract;
- (c) not intentionally injure or damage the business reputation of the Hotel or divert business therefrom;
- (d) not intentionally damage the Real Property;
- (e) maintain the insurance coverage that is presently in effect; and

(f) maintain food, beverage, inventory and supply levels that are currently maintained.

7.2 Seller's Post-Closing Covenants. Seller covenants and agrees that after Closing, Seller shall remain responsible for performing ongoing monitoring obligations of Seller with respect to the Oil Spill identified in Section 8.2(f) below in accordance with VDEQ requirements until the VDEQ no longer requires groundwater monitoring to be performed with respect to the Oil Spill.

7.3 Buyer's Covenants.

(a) Buyer covenants and agrees that, within fifteen (15) days of the Effective Date, Buyer, at its cost and expense, will apply for a franchise to operate the Hotel as a Crowne Plaza Hotel and Resort. In the alternative, if Buyer does not desire to operate the Hotel as a Crowne Plaza Hotel or if Buyer is not awarded a new franchise, Buyer, at its cost and expense, will take all necessary actions and steps to terminate the current Crowne Plaza franchise for the Hotel and to de-identify the Property as a Crowne Plaza Hotel.

(b) Buyer covenants and agrees that Buyer will provide Seller access to the Property for the purpose of performing ongoing groundwater monitoring obligations of Seller as required by the VDEQ with respect to the Oil Spill identified in Section 8.2(f) below and storing at the Property any equipment reasonably required in connection with the performance of such ongoing groundwater monitoring obligations but that Seller will not have any responsibility for any environmental matters that arise from the Property and the operation of the Hotel after Closing.

ARTICLE VIII.

BUYER'S AND SELLER'S REPRESENTATIONS AND WARRANTIES

8.1 Buyer's Representations and Warranties. Buyer represents and warrants to Seller that:

(a) Buyer has the full right, power and authority to purchase the Property from Seller as provided in this Agreement and to carry out Buyer's obligations hereunder;

(b) all requisite action necessary to authorize Buyer to enter into this Agreement and to carry out Buyer's obligations has been obtained;

(c) this Agreement has been duly authorized, executed and delivered by Buyer;

(d) the execution of this Agreement and the Closing to occur hereunder do not and will not violate any contract, covenant or other agreement to which Buyer may be a party or by which Buyer may be bound; and

(e) Buyer is a Virginia corporation duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Virginia.

8.2 Seller's Representations and Warranties. Seller represents and warrants that:

- (a) Seller has the full right, power and authority to sell the Property to Buyer as provided in this Agreement and to carry out Seller's obligations hereunder;
- (b) all requisite action necessary to authorize Seller to enter into this Agreement and to carry out Seller's obligations has been obtained;
- (c) this Agreement has been duly authorized, executed and delivered by Seller;
- (d) the execution of this Agreement and the Closing to occur hereunder do not and will not violate any contract, covenant or other agreement to which Seller may be a party or by which Seller may be bound.
- (e) Seller is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware, duly qualified to transact business in the Commonwealth of Virginia, and has all requisite power and authority to own its interests in the Property and to operate the Hotel, and to carry on its business as now being conducted.
- (f) Seller, to Seller's Knowledge, has not received any written or oral notification from any governmental authority concerning the Property for any violation of federal, state, county or municipal laws, ordinances or regulations, expressly including any violations concerning health, fire, building, sanitation, safety code violations, zoning, Hazardous Materials or any other environmental problems. Seller agrees to forward to Buyer copies of any notices described in the preceding sentence immediately on receipt by Seller. To Seller's Knowledge, Seller is not in violation of any governmental laws, ordinances, rules, and regulations applicable to the use and occupation of the Property, including, without limitation, health, fire, sanitation and safety codes. To Seller's Knowledge, Seller is not in violation of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. §§ 9601 et seq., the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq., or any modifications or amendments thereto, or applicable state law and other federal, state and local laws and the regulations implementing such laws now in force relating to hazardous waste disposal and/or toxic substances (the above laws are collectively referred to as "Environmental Laws"). Seller represents and warrants that it has disclosed to Buyer all pending or threatened litigation known to Seller and orders, rulings, notices, permits or investigations known to Seller regarding Hazardous Materials, as such terms are defined in applicable Environmental Laws.

Without limiting the generality of the foregoing, Seller will provide information to Buyer with regard to a small diesel fuel oil spill (the "Oil Spill") from an underground storage tank that occurred at the Property in December 2010, the successful clean-up effort made by Seller in connection therewith,

communications between Seller and the VDEQ with respect thereto, and the ongoing monitoring activities of Seller in connection therewith.

- (g) To Seller's Knowledge, Seller has not received any written or oral notification of a breach of any Contracts, any licenses and permits or any Lease and there are no defaults or conditions which with the passage of time or the giving of notice would constitute defaults thereunder. There are no persons with a right to use or occupy the Property other than the tenants under the Leases and the guests of the Hotel. Each of the Contracts, licenses and permits and Leases being assumed by Buyer are in full force and effect and have not been amended, modified or supplemented in any way that is not expressly disclosed to the Buyer in writing.
- (h) To Seller's Knowledge, there are no actual or threatened conditions or circumstances which would adversely affect the current use of the Property, or Seller's ability to use the Property to operate the Hotel.
- (i) To Seller's Knowledge, the Real Property is not subject to special assessment levies or any roll back taxes.
- (j) Seller has not made any commitment to any governmental or quasi-governmental authority, or to any third person to dedicate or grant any portion of the Real Property for roads, easements, rights of way, park lands, or other public or private purposes, or to grant any restrictions, or to incur any other expense or obligation relating to the Real Property.
- (k) There are no currently effective employment agreements, collective bargaining agreements, or pensions, retirement or profit sharing plans, with or covering any of the employees of the Hotel, except as set forth on Schedule 8.2(k).
- (l) To Seller's Knowledge, there are no unrecorded easements that adversely affect the use and operation of the Real Property as a Hotel. Prior to the Closing Date, Seller will not grant any easement that will affect title to the Real Property or Seller's right to transfer its property interest hereunder.
- (m) There are no other agreements, written or oral, other than the Contracts, licenses, permits and Leases, which affect the use or operations of the Hotel.
- (n) To Seller's Knowledge, Seller has not received any notice from any insurance company that has issued a policy with respect to the Hotel or from any board of fire underwriters (or other body exercising similar functions) claiming any defects or deficiencies or requesting the performance of any repairs, alterations, or other work to the Property, which, if not corrected, would result in termination of insurance coverage.
- (o) To Seller's Knowledge, there are no pending suits, litigation, or administrative proceedings relating to Seller, or to the Hotel, including, without limitation, pending labor grievances or arbitrations or suits.

- (p) All tangible Personal Property is in good working order.

ARTICLE IX.
ASSIGNMENT AND GUARANTY

The reputation, experience, and financial status of Ajitkumar B. Patel (“Patel”) constitute a material inducement and a substantial part of the consideration for sale of the Property by Seller to Buyer. Seller has consented to the formation and organization of Buyer by Patel for the purpose of acquiring the Hotel, but neither Patel nor Buyer may assign this Agreement, nor may any of Buyer’s rights hereunder be transferred in any manner to any person or entity, without Seller’s specific prior written consent. As a further inducement to Seller, Patel agrees to unconditionally guaranty the obligations of Buyer under this Agreement and in connection with the purchase of the Hotel.

ARTICLE X.
BROKERAGE

Buyer and Seller represent and warrant to Seller and Buyer, respectively, that each has not contacted or entered into any agreement with any real estate broker, agent, finder, or any other party in connection with this transaction, and that neither has taken any action which would result in any real estate broker’s finder’s, or other fees or commissions being due or payable to any other party with respect to this transaction other than Mumford Company with respect to Seller (the “Disclosed Broker”). Each party hereby indemnifies, protects, defends and agrees to hold the other party harmless from any loss, liability, damage, cost, or expense (including, but not limited to, reasonable attorneys’ fees) resulting to the other party from a breach of the representation and warranty made by such party herein. Seller shall be solely responsible for payment of the brokerage commission to the Disclosed Broker, and Buyer shall have no liability therefor.

ARTICLE XI.
DEFAULT

- 11.1 Buyer’s Default. If Buyer shall fail to close the transaction contemplated hereby as and when required or if Buyer shall otherwise be in default of its obligations hereunder before Closing, the Deposit shall be paid over to Seller as agreed as liquidated damages, it being acknowledged by Buyer and Seller that in such event Seller will suffer substantial damages but such damages are incapable of exact ascertainment. After payment to Seller of the Deposit, neither Seller nor Buyer shall have any further rights or obligations hereunder except that Buyer shall remain obligated pursuant to Sections 2.4 and 2.5 and any other provisions of this Agreement that expressly survive termination or expiration of this Agreement. If subsequent to Closing, Buyer shall fail to comply with its obligations contained herein which survive Closing, Seller, in addition to any rights and remedies provided herein, shall be entitled to any and all remedies available at law or in equity.
- 11.2 Seller’s Default. If this transaction shall not be closed because of default of Seller, Buyer shall be entitled to an immediate and full refund of the Deposit to Buyer on demand, and shall be entitled to pursue specific performance. In the event that specific performance is

obtained by Buyer, Buyer and Seller shall close on the terms herein contained. If subsequent to Closing, Seller shall fail to comply with its obligations contained herein which survive Closing, Buyer, in addition to any rights and remedies provided herein, shall be entitled to pursue all rights and remedies at law or in equity.

ARTICLE XII.
INDEMNIFICATION

- 12.1 Survival. The covenants and agreements of the parties (including, without limitation, the covenants and agreements of the parties set forth in this Article XII) contained in this Agreement shall survive the Closing. The representations and warranties of the parties contained in this Agreement or in any certificate or other writing delivered pursuant to this Agreement shall survive the Closing until the expiration of twelve (12) months after the Closing Date. Notwithstanding the preceding sentence, any representation or warranty in respect of which indemnity may be sought under this Agreement shall survive the time at which it would otherwise terminate pursuant to the preceding sentence, if notice of the inaccuracy of such representation or warranty giving rise to such right of indemnity shall have been given to the party against whom such indemnity may be sought before such time, and such period of survival shall continue until the indemnification claim related to such inaccuracy of such representation or warranty shall have been finally resolved pursuant to this Article XII.
- 12.2 Indemnification by Buyer. Buyer agrees to indemnify and hold harmless the Seller Group from and against any and all losses, claims, demands, damages, costs and expenses of whatsoever kind or nature including reasonable attorneys' fees related to or arising as a result of (i) the Assumed Liabilities and Buyer's ownership or operation of the Hotel and the Property after Closing, (ii) any misrepresentation or breach of any warranty made by Buyer in this Agreement or (iii) any breach of any covenant or agreement made or to be performed by Buyer pursuant to this Agreement (collectively, the "Deficiencies").
- 12.3 Indemnification by Seller. Seller agrees to indemnify and hold harmless Buyer from and against any and all losses, claims, demands, damages, costs, and expenses of whatsoever kind or nature including reasonable attorney's fees related to or arising as a result of (i) liabilities of Seller other than the Assumed Liabilities, (ii) any misrepresentation or breach of any warranty made by Seller in this Agreement or (iii) any breach of any covenant or agreement made or to be performed by Seller pursuant to this Agreement (collectively, the "Deficiencies"). In addition, Seller agrees to indemnify and hold harmless Buyer from and against any and all losses, claims, demands, damages, costs, and expenses of whatsoever kind or nature including reasonable attorney's fees related to or arising as a result of the performance by Seller and its contractors of the ongoing groundwater monitoring described in Section 7.2 above.
- 12.4 Limitation on Deficiencies. Notwithstanding any other provision of this Agreement (a) no party shall have any obligation to indemnify the other party from and against any Deficiencies resulting from, arising out of, relating to, in the nature of, or caused by the breach (or alleged breach) of any representation or warranty until such party has suffered

Deficiencies by reason of all such breaches (or alleged breaches) in excess of a \$5,000.00 aggregate deductible (at which point such party will be obligated to indemnify the other party from and against all further Deficiencies) and (b) there will be a \$250,000.00 aggregate ceiling on the obligation of a party to indemnify the other party from and against Deficiencies resulting from the breach of any warranties or representations by a party. The provisions of this Section shall not apply to the Closing pro rations made pursuant to Section 3.3.

ARTICLE XIII.
MISCELLANEOUS

13.1 Risk of Loss. Seller agrees to give Buyer prompt notice of any fire or other casualty affecting the Property or of any actual or threatened (to the extent that Seller has current actual knowledge thereof) taking or condemnation of all or any portion of the Property. If before Closing, there shall occur:

- (a) damage to the Property caused by fire or other casualty if damaged to the extent of more than thirty percent (30%) of the Purchase Price and, in connection therewith, Seller shall repair such damage and the Closing Date shall be extended by one day for each day it takes Seller to make such repair, not to exceed sixty (60) days; or
- (b) the taking or condemnation of all or any portion of the Property; which would materially interfere with the present use of such Property as determined by Buyer in its reasonable business discretion;

then, in such event, Buyer shall have the right to terminate this Agreement by written notice thereof delivered to Seller within ten (10) days after Buyer has received notice from Seller. If Buyer does not so timely elect to terminate this Agreement, then the Closing shall take place as provided herein and there shall be assigned to Buyer at the Closing all interest of Seller in and to any insurance proceeds or condemnation awards payable to Seller on account of that event, less sums which Seller incurs before the Closing to repair any of the damage. Notwithstanding the foregoing provisions, if damage to the Property caused by fire or other casualty is thirty percent (30%) of the Purchase Price or less, and, in connection therewith, Seller shall repair such damage and the Closing Date shall be extended by one day for each day it takes Seller to make such repair, not to exceed sixty (60) days, then Buyer shall be obligated to proceed to close on the purchase of the Property.

13.2 Construction. The terms "Seller" and "Buyer" whenever used in this Agreement shall include the permitted assigns of the respective parties hereto. Whenever used, the singular number shall include the plural and the plural the singular, and the use of any gender shall include all genders. The term "including" as used herein shall in all instances mean "including, but not limited to." The headings in this Agreement are intended solely for convenience of reference and shall be given no effect in the interpretation of this Agreement. This Agreement and any related instruments shall not be construed more strictly against one party than against the other by virtue of the fact

that initial drafts may have been prepared by counsel for one of the parties, it being recognized that this Agreement and any related instruments are the product of extensive negotiations between the parties.

- 13.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which will constitute the same agreement.
- 13.4 Severability and Waiver. Invalidation of any one section or provision of this Agreement by judgment or court order shall in no way affect any other section or provision. Failure of any party to this Agreement to insist on the full performance of any of its provisions by the other party (or parties) shall not constitute a waiver of such performance unless the party failing to insist on full performance of the provision declares in writing signed by it that it is waiving such performance. A waiver of any breach under this Agreement by any party, unless otherwise expressly declared in writing, shall not be a continuing waiver or waiver of any subsequent breach of the same or other provision of this Agreement.
- 13.5 Governing Law; Venue. The laws of the Commonwealth of Virginia (without regard to conflicts of law) shall govern the validity, construction, enforcement and interpretation of this Agreement. On any litigation arising out of or under this Agreement and/or out of Buyer's ownership, operation of or other activities on the Property, the prevailing party shall be entitled to collect from the non-prevailing party reasonable attorneys' fees and costs. Buyer and Seller hereby submit to the jurisdiction of the United States District Court for the Eastern District of Virginia, Norfolk Division, as the exclusive jurisdiction and venue for any suit or other proceeding brought in connection with or arising out of this Agreement.
- 13.6 Further Assurances. In addition to the acts and deeds recited in this Agreement and contemplated to be performed, executed, and/or delivered under this Agreement, Seller and Buyer agree to perform, execute and/or deliver or cause to be delivered, executed and/or delivered at Closing or after Closing all further acts, deeds, and assurances reasonably necessary to consummate the transactions contemplated hereby.

13.7 Notices. All notices, demands, requests, and other communications required or permitted hereunder shall be in writing. All such notices, demands, requests and other communications (and copies thereof) shall be deemed to be delivered: (a) if sent by messenger, on receipt or refusal to the party to whom the notice is directed; (b) on receipt or refusal if sent by overnight courier, with request for next Business Day delivery; or (c) on receipt or refusal after deposit in a regularly maintained receptacle for the United States mail, registered or certified, return receipt requested, postage prepaid, addressed as follows (or to such other address as the parties may specify by notice given pursuant to this section):

To Seller: Hampton Hotel Associates LLC
410 West Francis Street
Williamsburg, VA 23188
Attn: David R. Folsom, President and Chief Operating Officer

With a copy to: Willcox & Savage, PC.
440 Monticello Avenue
Suite 2200
Norfolk, VA 23510
Attn: Stephen W. Brewer, Esq.

To Buyer: Three Capital Hotels, Inc.
c/o Ajitkumar B. Patel
9 Top Cat Trail
Sylva, NC 28779

With a copy to: Raymond H. Suttle, Jr.
JONES, BLECHMAN, WOLTZ & KELLY, P.C.
701 Town Center Drive, Suite 800
Newport News, VA 23606

13.8 Subordination. This Agreement is subordinate to any financing now or hereafter granted or assumed by Seller with respect to the Property.

13.9 Entire Agreement and Amendment. This Agreement contains the entire understanding between Buyer and Seller with respect to the subject matter hereof. Neither this Agreement nor any provision hereof may be modified, amended, changed, waived, discharged or terminated orally. Any such action may occur only by an instrument in writing signed by the party against whom enforcement of the modification, change, waiver, discharge or termination is sought.

13.10 Recording. This Agreement shall not be recorded and Buyer agrees that recording same by Buyer constitutes a default by Buyer.

13.11 Exhibits. The Exhibits referenced in and attached to this Agreement are incorporated in, and made a part of, this Agreement for all purposes.

- 13.12 Calculation of Dates. If the final day of any period or any date of performance under this Agreement falls on a date which is not a Business Day, then the final day of the period or the date of performance, as applicable, shall be extended to the next day which is a Business Day.
- 13.13 No Third Party Beneficiary. This Agreement is solely between Seller and Buyer and no other party shall be entitled to rely on any provision hereof for any purpose whatsoever.
- 13.14 Backup Contract(s). Buyer understands that Seller may actively negotiate with other parties and may enter into back up contracts for the sale of the Property. The backup contracts will be subject and subordinate to this Agreement so long as this Agreement is in full force and effect and Buyer is not in default hereunder.
- 13.15 Limitation on Liability. Buyer expressly agrees that the obligations and liabilities of Seller under this Agreement and any document referenced herein shall not constitute personal obligations of the officers, directors, employees, agents, trustees, partners, members, representatives, stockholders or other principals and representatives of Seller. The limitations of liability contained in this paragraph shall apply equally and inure to the benefit of Seller's present and future officers, directors, trustees, shareholders, agents and employees, and their respective heirs, successors
- 13.16 WAIVER OF JURY TRIAL. THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT EITHER MAY HAVE, TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT AND ANY DOCUMENT EXECUTED IN CONNECTION HERewith OR RELATED HERETO, OR ANY COURSE OR CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF EITHER PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES TO ENTER INTO THIS TRANSACTION.
- 13.17 Confidentiality. Seller and Buyer each covenant that (i) prior to Closing it shall not issue any press release or public statement (a "Release") with respect to the transactions contemplated by this Agreement without the prior consent of the other, and (ii) after Closing, any Release issued by Seller or Buyer shall be subject to the review and approval of the other (which approval shall not be unreasonably withheld). If Seller or Buyer is required by law to issue a Release, such party shall, at least two (2) Business Days prior to the issuance of the same, deliver a copy of the proposed Release to the other for review. Notwithstanding the foregoing however, Buyer shall have the right to issue and file such documents as are required by federal and state securities laws and regulations.

13.18 Exhibits and Schedules.

- EXHIBIT A - Legal Description of the Land
- EXHIBIT B - Special Warranty Deed
- EXHIBIT C - Bill of Sale
- EXHIBIT D - Assignment and Assumption Agreement

- Schedule 1.1(i) - Contracts
- Schedule 1.1(w) - Leases
- Schedule 1.1(x) - Personal Property
- Schedule 2.1 - Seller Due Diligence Information and Reports
- Schedule 3.1 - Purchase Price Allocation
- Schedule 3.3(b)(ii) - Uncollected Accounts Receivable Balances
- Schedule 8.2(k) - Employment Agreements

IN WITNESS WHEREOF, Buyer and Seller have duly executed this Agreement for Sale and Purchase of Property on the date first set forth above.

SELLER:

HAMPTON HOTEL ASSOCIATES LLC,
a Delaware limited liability company

By: /s/ David R. Folsom
Manager

[SEAL]

BUYER:

THREE CAPITAL HOTELS, INC.,
a Virginia corporation

By: /s/ Ajitkumar B. Patel
Name: Ajitkumar B. Patel
Title: President

[SEAL]

GUARANTOR:

/s/ Ajitkumar B. Patel (SEAL)
Ajitkumar B. Patel

EXHIBIT A
LEGAL DESCRIPTION

Parcel 1

Beginning at a point in the southern right-of-way line of Settlers Landing Road, said point of beginning being distant N 73°59'56" E, 280.91' from the intersection of the said southern right-of-way line of Settler's Landing Road with the eastern right-of-way line of South King Street; thence from the point of beginning along the southern right-of-way line of Settler's Landing Road the following courses, N 73°59'56" E, 239.91'; N 73°58'33" E, 78.88'; N 72°58'47" E, 30.66'; S 16°00'04" E, 6.00'; N 73°59'56" E, 6.00'; N 16°00'04" W, 6.00'; N 72°08'21" E, 77.04'; S 16°00'04" E, 6.00'; N 73°59'56" E, 6.00'; N 16°00'04" W, 6.00'; N 73°59'56" E, 9.34'; S 16°00'04" E, 1.00'; N 72°01'48" E, 80.63'; S 16°00'04" E, 5.00'; N 72°58'02" E, 96.10'; N 73°59'56" E, 20.75' to a point at its intersection with the western line of the property now or formerly belonging to City of Hampton and duly recorded in the Clerk's Office of the Circuit Court of the City of Hampton, Virginia, in Deed Book 559 at page 823; thence along the said western line of City of Hampton the following courses, S 55°51'09" E, 29.42' to a point; thence N 72°34'05" E, 6.05' to a point; thence S 55°09'55" E, 22.14'; thence S 50°56'18" W, 13.07' to a point; thence S 53°18'03" E, 37.34' to a point at its intersection with the northeast face of a new concrete bulkhead located on northwest side of the Hampton River; thence along the said northeast face of the new concrete bulkhead the following courses, S 37°39'04" W, 72.82'; S 41°03'36" W, 224.21'; S 74°19'04" W, 244.75'; S 75°02'59" W, 218.03' to a point at its intersection with the western face of a new concrete bulkhead; thence turning and going along the said western face of a new concrete bulkhead the following courses, N 14°54'15" W, 142.22'; S 74°00'03" W, 6.43'; N 14°27'05" W, 8.51' to a point at its intersection with the southern line of Parcel 4-A as shown on a map recorded in the Clerk's Office of the Circuit Court in the City of Hampton, Virginia in Deed Book 350 at Page 716; thence along said southern line of Parcel 4-A, N 74°53'01" E, 3.26' to a point at its intersection with the eastern line of the aforementioned Parcel 4-A; thence along the said eastern line, N 5°33'36" W, 83.29' to a point at its intersection with the southern line of Settler's Landing Road, the point of beginning.

The above-described parcel contains 146,232 square feet or 3.357 acres.

LESS, SAVE AND EXCEPT that portion of the property conveyed to the City of Hampton, Virginia, by deed dated July 1, 1986, and duly recorded in the Clerk's Office in Deed Book 958, at Page 1410.

TOGETHER WITH all and singular, the buildings and improvements thereon, rights and privileges, tenements, hereditaments, easements and appurtenances unto the said land belonging or in anywise appertaining.

SUBJECT TO the easements as contained in that certain Deed dated November 14, 1985, and duly recorded in the Clerk's Office in Deed Book 744, at page 158.

Parcel 2

Beginning at a point in the southern right-of-way line of Settlers Landing Road, said point of beginning being N 73°59'56" E, 280.91 feet from the intersection of the eastern right-of-way line of South King Street and said southern right-of-way line of Settlers Landing Road; thence continuing along said southern right-of-way line of Settlers Landing Road N 73°59'56" E, 28.58 feet to a point; thence S 05°56'58" E, 36.63 feet to a point; thence S 15°45'27" E, 55.21 feet to a point; thence N 74°03'31" E, 9.75 feet to a point; thence S 16°02'27" E, 130.49 feet to a point; thence N 73°58'39" E, 263.36 feet to a point; thence N 16°08'25" W, 99.49 feet to a point; thence N 74°07'12" E, 4.93 feet to a point; thence N 16°08'00" W, 92.61 feet to a point on a curve to the left having a radius of 9.64 feet, thence along said curve to the left an arc length of 15.12 feet to a point; thence S 74°00'25" W, 61.40 feet to a point; thence S 32°20'47" W, 8.34 feet to a point; thence S 73°58'29" W, 122.76 feet to a point on a curve to the right having a radius of 17.61 feet, thence along said curve to the right an arc length of 27.43 feet to a point; thence N 16°48'39" W, 8.19 feet to a point at its intersection with aforementioned southern right-of-way line of Settlers Landing Road; thence along said southern right-of-way line the following courses: N 73°59'56" E, 158.05 feet; N 73°58'33" E, 78.88 feet; N 72°58'47"E, 30.66 feet; S 16°00'04" E, 6.00 feet; N 73°59'56" E, 6.00 feet; N 16°00'04" W, 6.00 feet; N 72°08'21" E, 77.04 feet; S 16°00'04" W, 6.00 feet; N 73°59'56" E, 6.00 feet; N 16°00'04" W, 6.00 feet; N 73°59'56" E, 9.34 feet; S 16°00'04" E 1.00 foot; N 72°01'48" E, 80.63 feet; S 16°00'04" E, 5.00 feet to a point; thence leaving said southern right-of-way line S 70°57'56" W, 39.80 feet to a point; thence S 62°27'48" W, 55.94 feet to a point; thence S 03°35'25" W, 56.64 feet to a point; thence S 41°02'41" W, 81.71 feet to a point; thence S 16°03'11" E, 110.29 feet to a point; thence N 73°55'09" E, 99.06 feet to a point; thence N 41°10'22" E, 204.63 feet to a point; thence N 20°02'58" E, 16.53 feet to a point; thence N 40°59'42" E, 61.00 feet to a point; thence N 16°14'08" W, 12.65 feet to a point at its intersection with the western line of a City of Hampton parcel as recorded in the Clerk's Office of the Circuit Court in the City of Hampton, Virginia, in Deed Book 559, at Page 823; thence along said western line S 53°18'03" E, 27.18 feet to a point at its intersection with the eastern face of a bulkhead; thence along said face of bulkhead the following courses: S 37°39'04" W, 72.82 feet; S 41°03'36" W, 224.21 feet; S 74°19'04" W, 244.75 feet; S 75°02'59" W, 218.03 feet; N 14°54'15" W, 142.22 feet; S 74°00'03" W, 6.43 feet; N 14°27'05" W, 8.51 feet to a point at the terminus of said bulkhead; thence N 74°53'01" E, 3.26 feet to a point; thence N 05°33'36" W, 83.29 feet to a point at its intersection with said southern right-of-way line of Settlers Landing Road, the point of beginning.

The above-described parcel contains 43,429 square feet, or 0.9970 acres, which parcel is shown on that certain plat entitled "Plat Showing Easement to be Dedicated to City of Hampton Located on Settlers Landing Road, Hampton,

Virginia" which plat is dated November 16, 1988, and prepared by Baldwin and Gregg, Engineers, Planners, Surveyors, Norfolk, Virginia, a copy of which is recorded in the Clerk's Office of the Circuit Court of the City of Hampton, Virginia in Deed Book 958, at page 1410.

Together with all improvements, rights and privileges, the tenements, hereditaments and appurtenances thereunto belonging or in anywise appertaining.

Less and except that portion of property known as: RPC No. 13002100 and described as follows:

Beginning at a point on the southern line of City of Hampton property as described in Deed Book 559 at Page 823 at its eastern most point; said point being on the southern face of the concrete bulkhead as shown on a map prepared by Baldwin & Gregg, Ltd. Entitled "PROPERTY SPLIT OF PROPERTY OF THE CITY OF HAMPTON LOCATED ON SETTLERS LANDING ROAD"; thence in a southerly and westerly direction south 37° 39' 04" west, 72.82 feet to a point; thence south 41° 03' 36" west, 224.21 feet to a point; thence south 74° 19' 04" west, 244.75 feet to a point; thence south 75° 02' 59" west, 218.03 feet to a point; thence north 14° 54' 15" west, 142.22 feet to a point; thence south 74° 00' 03" west, 6.43 feet; thence north 14° 27' 05" west, 8.51 feet to a point; thence north 74° 53' 01" east, 3.26 feet to a point; thence south 14° 27' 05" east, 5.15 feet to a point; thence north 74° 00' 03" east, 8.44 feet to a point; thence south 14° 54' 15" east, 140.40 feet to a point; thence north 74° 50' 02" east, 290.95 feet to a point; thence north 74° 18' 04" east, 78.96 feet to a point; thence north 74° 19' 04" east, 87.74 feet to a point; thence north 41° 03' 36" east, 220.97 feet to a point; thence north 37° 39' 04" east, 72.62 feet to a point at its intersection with the aforementioned southern line of the City of Hampton property; thence along said southern line south 53° 18' 03" east, 4.30 feet to the point of beginning.

The above described parcel contains 4,589 +/- square feet or 0.1053 +/- acres, more or less.

EXHIBIT B

Prepared by:

Stephen W. Brewer
Willcox & Savage, P.C.
440 Monticello Avenue
Suite 2200
Norfolk, Virginia 23510
VSB No.: 17218

Parcel Identification No(s): _____

SPECIAL WARRANTY DEED

THIS DEED is made as of the ____ day of _____, 2016, by and between, HAMPTON HOTEL ASSOCIATES LLC, a Delaware limited liability company, a grantor for indexing purposes (the "Grantor"); and THREE CAPITAL HOTELS, INC, a Virginia corporation, a grantee for indexing purposes (the "Grantee"), with an address of _____.

WITNESSETH:

THAT FOR and in consideration of the sum of Ten Dollars (\$10.00), cash in hand paid, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor hereby grants, bargains, sells, assigns, transfers and conveys with SPECIAL WARRANTY unto Grantee the real property more particularly described as follows:

SEE EXHIBIT A attached hereto.

This conveyance is made expressly subject to the covenants, conditions, restrictions, easements and reservations contained in duly recorded deeds, plats and other instruments constituting constructive notice in the chain of title to the property hereby conveyed that have not expired by time limitations contained therein or otherwise become ineffective.

[Signature Page Follows on Next Page]

WITNESS the following signature and seal as of the day and year first above written.

HAMPTON HOTEL ASSOCIATES LLC,
a Delaware limited liability company

By: _____
Name: _____
Title: Manager

[SEAL]

COMMONWEALTH OF VIRGINIA
CITY OF _____, TO WIT:

The foregoing instrument was acknowledged before me this _____ day of _____, 2016, by _____, Manager of Hampton Hotel Associates LLC, a Delaware limited liability company, on behalf of the company.

Notary Public

My Commission Expires: _____

Notary Registration No.: _____

EXHIBIT A

Legal Description

EXHIBIT C

BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS THAT HAMPTON HOTEL ASSOCIATES LLC, a Delaware limited liability company (“Assignor”), for a consideration of One Dollar (\$1.00) , cash in hand paid, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby sells, assigns, transfers and delivers unto THREE CAPITAL HOTELS, INC., a Virginia corporation (“Assignee”) all of Assignor’s right, title and interest in the personal property, owned by Assignor and located on or used in connection with that real property and improvements located at and commonly known as Crowne Plaza Marina Hotel of Hampton (the “Property”) as of the close of business on the ___ day of _____, 2016, including, but not limited to, the following:

- (1) all equipment, fixtures, furniture, furnishings, supplies and other personal property of every description, if any, owned by Assignor and located in or on, or attached to, or used in connection with the Property (the “Tangible Personal Property”);
- (2) all of Assignor’s right, title and interest in, all contract rights related to the Property or the Tangible Personal Property, including, without limitation, the Assignor’s interest in the following: maintenance, construction, commission, architectural, engineering, parking, supply or service contracts, warranties, guarantees and other agreements related to the Property or the Tangible Personal Property that will remain in existence after the date hereof (collectively, the “Service Contracts”);
- (3) all of Assignor’s right, title and interest in, to and under any licenses, certificates of occupancy, permits and approvals issued by any governmental authority and relating to the Property, the Tangible Personal Property or Service Contracts (the “Permits”);
- (4) all of Assignor’s right, title and interest in and to any transferable warranties or guaranties relating to the Property; and
- (5) all of Assignor’s right, title and interest, if any, in and to all other intangible rights, titles, interests, privileges and appurtenances owned by Assignor and related to or used exclusively in connection with the ownership, use or operation of the Property (the “Intangible Personal Property” and, with the Tangible Personal Property, the Service Contracts and the Permits, the “Personal Property”).

TO HAVE AND TO HOLD, all and singular, the Personal Property hereby sold, assigned, and transferred to Assignee, its successors and assigns to and for its own use and benefit.

Assignor hereby confirms and affirms to Assignee the representations and warranties relating to the Personal Property as contained in that certain Agreement For Sale and Purchase of Property between Assignor and Assignee dated as of April __, 2016.

This Bill of Sale shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to principles of conflicts of laws.

IN WITNESS WHEREOF, the Assignor has caused these presents to be executed, sealed and delivered effective as of the _____ day of _____, 2016.

ASSIGNOR:

HAMPTON HOTEL ASSOCIATES LLC,
a Delaware limited liability company

By: _____
Manager

[SEAL]

EXHIBIT D

ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Assignment") is entered into this ___ day of _____, 2016 (the "Effective Date") by and between HAMPTON HOTEL ASSOCIATES LLC, a Delaware limited liability company (the "Assignor") and THREE CAPITAL HOTELS, INC., a Virginia corporation (the "Assignee").

RECITALS:

Pursuant to that certain Agreement For Sale and Purchase of Property, dated April __, 2016 (the "Sale Agreement") between Assignor and Assignee, Assignor has transferred and conveyed that real property and improvements located at and commonly known as Crowne Plaza Marina Hotel of Hampton (the "Real Property") to Assignee.

Assignor is the landlord under those certain Leases described on Exhibit A attached hereto and incorporated herein (as amended, the "Leases").

Assignor desires to assign all of its right, title and interest in and to the Leases and all security deposits required to be paid pursuant to the Leases to Assignee, and Assignee desires to accept and assume the same from Assignor on the terms set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged by each of the parties hereto, Assignor and Assignee do hereby agree as follows:

1. Assignment and Assumption. Assignor hereby assigns, conveys, transfers, grants and sets over unto Assignee, its successors and assigns, as of the Effective Date, all of Assignor's right, title and interest in and to the Leases. Assignee hereby accepts the foregoing assignment.

2. Security Deposits. Assignor hereby assigns conveys, transfers, grants and sets over unto Assignee, its successors and assigns, as of the Effective Date, all of Assignor's right, title and interest in any security or other deposits required to be paid pursuant to the terms of the Leases.

3. Indemnification.

(a) Assignor hereby agrees to indemnify, defend and hold harmless Assignee from and against any and all liability, loss, damage and expense, including without limitation reasonable attorneys' fees, which Assignee may or shall incur under the Leases by reason of any failure of the Assignor to have complied with or to have fully performed, before the Effective Date, all obligations on its part to have been performed, complied with or discharged under any of the terms and conditions contained in the Leases which were to be performed before the Effective Date.

(b) Assignee hereby agrees to indemnify, defend and hold harmless Assignor from and against any and all liability, loss, damage and expense, including without limitation reasonable attorneys' fees, which Assignor may or shall incur under the Leases by reason of any failure of Assignee to have complied with or to have fully performed, on or after the Effective Date, all obligations on its part to have been performed, complied with or discharged under any of the terms and conditions contained in the Leases which were to be performed on or after the Effective Date.

4. Miscellaneous. The terms and conditions of this Assignment shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns. This Assignment may be executed in multiple counterparts, each of which shall be deemed an original Assignment, but all of which, taken together, shall constitute one and the same Assignment, binding on the parties hereto. The signature of any party hereto to any counterpart hereof shall be deemed a signature to, and may be appended to, any other counterpart hereof. This Assignment shall be governed by the laws of the Commonwealth of Virginia, without regard to principles of conflicts of laws.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed as of the Effective Date.

[Signatures Appear on Following Page]

ASSIGNOR:

HAMPTON HOTEL ASSOCIATES LLC,
a Delaware limited liability company

By: _____
Manager

[SEAL]

COMMONWEALTH OF VIRGINIA
CITY OF _____, TO WIT:

The foregoing instrument was acknowledged before me this _____ day of _____, 2016, by _____, Manager of Hampton Hotel Associates LLC, a Delaware limited liability company, on behalf of the company.

Notary Public

My Commission Expires: _____

Notary Registration No.: _____

ASSIGNEE:

THREE CAPITAL HOTELS, INC.,
a Virginia corporation

By: _____
Title: _____

[SEAL]

COMMONWEALTH OF VIRGINIA
CITY OF _____, TO WIT:

The foregoing instrument was acknowledged before me this ____ day of _____, 2016, by _____, as _____ of Three Capital Hotels, Inc., a Virginia corporation, on behalf of the corporation.

Notary Public

My Commission Expires: _____

Notary Registration No.: _____

AMENDMENT TO
AGREEMENT FOR SALE AND PURCHASE OF PROPERTY

THIS AMENDMENT TO AGREEMENT FOR SALE AND PURCHASE OF PROPERTY is made this 10th day of June, 2016, by and between HAMPTON HOTEL ASSOCIATES LLC, a Delaware limited liability company, (“Seller”); and THREE CAPITAL HOTELS, INC., a Virginia corporation (“Buyer”); and AJITKUMAR PATEL (“Guarantor”).

WHEREAS, the parties entered into an Agreement For Sale and Purchase of Property dated April ___, 2016 (the “Agreement”), whereby the Seller is to sell to the Buyer the Hotel defined and as further set forth in the Agreement; and

WHEREAS, the parties wish to modify the terms of the Agreement as set forth herein.

NOW, THEREFORE, for the mutual consideration contained herein and in the Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties agree to modify and amend the Agreement as follows:

1. The Feasibility Date as set forth in Article 1.1(o) of the Agreement shall be extended by seven (7) days for a total of fifty-two (52) days after the Effective Date, which date shall be June 20, 2016. The extension is limited to the conditions set forth in Section 2.2.

2. The Closing Date, as set forth in Article 1.1(f) shall be July 13, 2016

3. Section 2.2, Buyer’s Inspection Rights, shall be modified as follows:

“The Buyer and Guarantor shall have until the Feasibility Date to obtain approval and receive a franchise agreement as defined in Article 1.1(p) from Intercontinental Hotels Group, LLC for the operation of the Hotel as a Crown Plaza Hotel and Resort Franchise. The Feasibility Study for all other inspections as set forth in the Agreement shall terminate on June 13, 2016. The Feasibility Date shall only be extended for the purpose of obtaining the Franchise Agreement. If Buyer is unable to obtain a Franchise Agreement, it must notify the Seller by written notice on or before June 20, 2016 of its intent to terminate the Agreement.”

4. Buyer acknowledges and agrees that, except for the Inspection Right described in Section 3 above, Buyer’s Inspection Rights expire on June 13, 2016, and the Deposit becomes non-refundable on that date except as otherwise specifically set forth in the Agreement.

5. Unless modified herein, all provisions of the Agreement shall remain in full force and effect.

WITNESS the following signatures:

HAMPTON HOTEL ASSOCIATES LLC

By /s/ Andrew M. Sims
Manager

THREE CAPITAL HOTELS, INC.

By /s/ Ajitkumar B. Patel
Its President

/s/ Ajitkumar B. Patel
Ajitkumar Patel

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Section 4: EX-31.1 (EX-31.1)

EXHIBIT 31.1

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF EXECUTIVE OFFICER**

I, Andrew M. Sims, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotherly Hotels 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.

Date: August 11, 2016

By: /s/ Andrew M. Sims
Name: Andrew M. Sims
Title: Chief Executive Officer

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Section 5: EX-31.2 (EX-31.2)

EXHIBIT 31.2

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF FINANCIAL OFFICER**

I, Anthony E. Domalski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotherly Hotels 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.

Date: August 11, 2016

By: /s/ Anthony E. Domalski

Name: Anthony E. Domalski

Title: Chief Financial Officer

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Section 6: EX-31.3 (EX-31.3)

EXHIBIT 31.3

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF EXECUTIVE OFFICER**

I, Andrew M. Sims, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotherly Hotels LP;

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.

Date: August 11, 2016

By: /s/ Andrew M. Sims

Name: Andrew M. Sims

Title: Chief Executive Officer
Sotherly Hotels, Inc., sole general partner of
Sotherly Hotels LP

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Section 7: EX-31.4 (EX-31.4)

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF FINANCIAL OFFICER**

I, Anthony E. Domalski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotherly Hotels LP;

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.

Date: August 11, 2016

By: /s/ Anthony E. Domalski
 Name: Anthony E. Domalski
 Title: Chief Financial Officer
 Sotherly Hotels, Inc., sole general partner of
 Sotherly Hotels LP

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Section 8: EX-32.1 (EX-32.1)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sotherly Hotels LP (the "Operating Partnership") on Form 10-Q for the period ending June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew M. Sims, Chief Executive Officer of the Sotherly Hotels Inc., sole general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

Date: August 11, 2016

By: /s/ Andrew M. Sims
Name: Andrew M. Sims
Title: Chief Executive Officer
Sotherly Hotels Inc., sole general partner of
Sotherly Hotels LP

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Section 11: EX-32.4 (EX-32.4)

EXHIBIT 32.4

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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 Sotherly Hotels LP (the "Operating Partnership") on Form 10-Q for the period ending June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony E. Domalski, Chief Financial Officer of Sotherly Hotels Inc., sole general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

Date: August 11, 2016

By: /s/ Anthony E. Domalski
Name: Anthony E. Domalski
Title: Chief Financial Officer
Sotherly Hotels, Inc., sole general partner of
Sotherly Hotels LP

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