Section 1: 10-Q (10-Q)

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

SOTHERLY HOTELS INC.
(Exact name of registrant as specified in its charter)

MARYLAND	**001-32379**	**20-1531029**
(State or Other Jurisdiction of Incorporation or Organization)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

SOTHERLY HOTELS LP
(Exact name of registrant as specified in its charter)

DELAWARE	**001-36091**	**20-1965427**
(State or Other Jurisdiction of Incorporation or Organization)	**(Commission File Number)**	**(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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Securities Exchange Act. (Check one):

Sotherly Hotels Inc.

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-accelerated Filer	☐	Smaller Reporting Company	☐
Emerging Growth Company	☐		

Sotherly Hotels LP

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-accelerated Filer	☒	Smaller Reporting Company	☐
Emerging growth company	☐		

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

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 3, 2018, there were 14,121,081 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,” the Company’s common stock as “Common Stock,” the Company’s preferred stock as “Preferred Stock,” and the Operating Partnership’s preferred interest as the “Preferred Interest.” 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, 2018 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 7 – Preferred Stock and Units;
  - Note 8 – Common Stock and Units;
  - Note 9 – Related Party Transactions; and
  - Note 13 – 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

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Investment in hotel properties, net	$ 434,285,458	$ 357,799,512
Cash and cash equivalents	28,435,806	29,777,845
Restricted cash	5,301,033	3,651,197
Accounts receivable, net	10,972,446	5,587,077
Accounts receivable - affiliate	426,041	394,026
Prepaid expenses, inventory and other assets	6,693,982	7,292,565
Favorable lease assets, net	2,655,069	—
Deferred income taxes	3,929,188	5,451,118
TOTAL ASSETS	**$ 492,699,023**	**$ 409,953,340**
LIABILITIES		
Mortgage loans, net	$ 354,529,454	$ 297,318,816
Unsecured notes, net	23,635,174	—
Accounts payable and accrued liabilities	17,277,577	13,813,623
Advance deposits	1,861,704	1,572,388
Dividends and distributions payable	3,302,095	3,073,483
TOTAL LIABILITIES	**$ 400,606,004**	**$ 315,778,310**
Commitments and contingencies (See Note 6)	—	—
EQUITY		
Sotherly Hotels Inc. stockholders' equity		
Preferred stock, $0.01 par value, 11,000,000 shares authorized;		
8.0% Series B cumulative redeemable perpetual preferred stock, liquidation preference $25 per share, 1,610,000 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	16,100	16,100
7.875% Series C cumulative redeemable perpetual preferred stock, liquidation preference $25 per share, 1,300,000 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	13,000	13,000
Common stock, par value $0.01, 49,000,000 shares authorized, 14,121,081 shares and 14,078,831 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	141,211	140,788
Additional paid-in capital	146,368,293	146,249,339
Unearned ESOP shares	(4,511,269)	(4,633,112)
Distributions in excess of retained earnings	(50,811,546)	(48,765,860)
Total Sotherly Hotels Inc. stockholders' equity	91,215,789	93,020,255
Noncontrolling interest	877,230	1,154,775
TOTAL EQUITY	**92,093,019**	**94,175,030**
TOTAL LIABILITIES AND EQUITY	**$ 492,699,023**	**$ 409,953,340**

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

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
REVENUE				
Rooms department	$ 35,330,676	$ 28,906,872	$ 63,616,121	$ 56,273,506
Food and beverage department	11,080,568	8,583,358	19,432,551	16,907,117
Other operating departments	5,142,283	3,152,402	10,240,411	6,156,895
Total revenue	**51,553,527**	**40,642,632**	**93,289,083**	**79,337,518**
EXPENSES				
Hotel operating expenses				
Rooms department	8,176,164	6,743,788	14,876,545	13,426,067
Food and beverage department	7,673,049	6,151,495	14,068,125	11,879,968
Other operating departments	1,680,582	623,530	3,208,909	1,223,550
Indirect	17,640,285	15,605,262	32,873,541	29,810,493
Total hotel operating expenses	**35,170,080**	**29,124,075**	**65,027,120**	**56,340,078**
Depreciation and amortization	5,601,940	4,219,712	11,236,130	8,280,809
Loss on disposal of assets	—	51,507	3,739	51,507
Corporate general and administrative	1,503,549	1,834,930	3,049,849	3,547,012
Total operating expenses	**42,275,569**	**35,230,224**	**79,316,838**	**68,219,406**
NET OPERATING INCOME	**9,277,958**	**5,412,408**	**13,972,245**	**11,118,112**
Other income (expense)				
Interest expense	(5,087,482)	(3,874,076)	(9,264,501)	(7,687,793)
Interest income	66,505	13,294	148,209	72,925
Loss on early extinguishment of debt	—	(228,087)	—	(228,087)
Unrealized gain (loss) on hedging activities	5,798	(11,261)	18,528	(27,206)
Gain on sale of assets	—	—	—	100,407
Gain on involuntary conversion of assets	27,824	—	898,565	1,041,815
Net income before income taxes	**4,290,603**	**1,312,278**	**5,773,046**	**4,390,173**
Income tax provision	(1,323,014)	(196,483)	(1,628,969)	(368,420)
Net income	**2,967,589**	**1,115,795**	**4,144,077**	**4,021,753**
Less: Net income attributable to noncontrolling interest	(170,331)	(33,869)	(140,318)	(263,811)
Net income attributable to the Company	**2,797,258**	**1,081,926**	**4,003,759**	**3,757,942**
Distributions to preferred stockholders	(1,444,844)	(805,000)	(2,889,688)	(1,610,000)
Net income available to common stockholders	**$ 1,352,414**	**$ 276,926**	**$ 1,114,071**	**$ 2,147,942**
Net income per share available to common stockholders				
Basic	$ 0.10	$ 0.02	$ 0.08	$ 0.15
Diluted	$ 0.10	$ 0.02	$ 0.08	$ 0.15
Weighted average number of common shares outstanding				
Basic	13,488,526	13,813,168	13,480,529	13,898,910
Diluted	13,489,475	13,815,035	13,486,140	13,908,359

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

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Preferred Stock		Common Stock						
	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital	Unearned ESOP Shares	Distributions in Excess of Retained Earnings	Noncontrolling Interest	Total
Balances at December 31, 2017	**2,910,000**	**$ 29,100**	**14,078,831**	**$140,788**	**$146,249,339**	**$(4,633,112)**	**$ (48,765,860)**	**$ 1,154,775**	**$94,175,030**
Net income	—	—	—	—	—	—	4,003,759	140,318	4,144,077
Issuance of unrestricted common stock awards	—	—	2,250	23	13,454	—	—	—	13,477
Issuance of restricted common stock awards	—	—	40,000	400	89,450	—	—	—	89,850
Amortization of ESOP shares	—	—	—	—	—	121,843		—	121,843
Amortization of restricted stock award	—	—	—	—	16,050	—	—	—	16,050
Preferred stock dividends declared	—	—	—	—	—	—	(2,889,688)	—	(2,889,688)
Common stockholders' dividends and distributions declared	—	—	—	—	—	—	(3,159,757)	(417,863)	(3,577,620)
Balances at June 30, 2018 (unaudited)	**2,910,000**	**$ 29,100**	**14,121,081**	**$141,211**	**$146,368,293**	**$(4,511,269)**	**$ (50,811,546)**	**$ 877,230**	**$92,093,019**

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, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net income	$ 4,144,077	$ 4,021,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,236,130	8,280,809
Amortization of deferred financing costs	462,469	414,366
Amortization of mortgage premium	(12,341)	(12,341)
Gain on involuntary conversion of assets	(898,565)	(1,041,815)
Unrealized (gain) loss on derivative instrument	(18,528)	27,206
Loss/(gain) on sale or disposal of assets	3,739	(48,900)
Loss on early extinguishment of debt	—	228,087
Share - based compensation	241,221	217,086
Changes in assets and liabilities:		
Accounts receivable	(4,415,667)	840,630
Prepaid expenses, inventory and other assets	1,014,182	(1,377,186)
Deferred income taxes	1,521,929	257,996
Accounts payable and other accrued liabilities	2,911,180	1,438,743
Advance deposits	67,091	(555,560)
Accounts receivable - affiliate	(32,015)	(559,730)
Net cash provided by operating activities	**16,224,902**	**12,131,144**
Cash flows from investing activities:		
Acquisitions of hotel properties	(79,732,716)	(3,986,849)
Improvements and additions to hotel properties	(10,563,930)	(12,480,207)
Proceeds from the sale of hotel property	—	5,434,856
Proceeds from involuntary conversion	222,553	1,041,815
Proceeds from the sale or disposal of assets	—	3,355
Net cash used in investing activities	**(90,074,093)**	**(9,987,030)**
Cash flows from financing activities:		
Proceeds of mortgage debt	65,300,000	35,500,000
Proceeds of unsecured debt	25,000,000	—
Repurchase of common stock	—	(1,103,130)
Payments on mortgage loans	(7,707,048)	(23,647,602)
Payments of deferred financing costs	(2,197,268)	(585,004)
Funding of ESOP stock purchase	—	(4,874,758)
Dividends and distributions paid	(3,349,008)	(3,130,094)
Preferred dividends paid	(2,889,688)	(1,610,000)
Net cash provided by financing activities	**74,156,988**	**549,412**
Net increase in cash, cash equivalents and restricted cash	307,797	2,693,526
Cash, cash equivalents and restricted cash at the beginning of the period	33,429,042	36,362,919
Cash, cash equivalents and restricted cash at the end of the period	**$ 33,736,839**	**$ 39,056,445**
Supplemental disclosures:		
Cash paid during the period for interest	**$ 8,769,755**	**$ 3,513,312**
Cash paid during the period for income taxes	**$ 280,552**	**$ 81,361**
Non-cash investing and financing activities:		
Change in proceeds of involuntary conversion in accounts receivable	**$ 676,013**	**$ -**
Change in amount of improvements to hotel property in accounts payable and accrued liabilities	**$ 91,556**	**$ 1,141,553**

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

SOTHERLY HOTELS LP
CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Investment in hotel properties, net	$ 434,285,458	$ 357,799,512
Cash and cash equivalents	28,435,806	29,777,845
Restricted cash	5,301,033	3,651,197
Accounts receivable, net	10,972,446	5,587,077
Accounts receivable - affiliate	426,041	394,026
Loan receivable - affiliate	4,556,062	4,650,969
Prepaid expenses, inventory and other assets	6,693,982	7,292,565
Favorable lease assets, net	2,655,069	—
Deferred income taxes	3,929,188	5,451,118
TOTAL ASSETS	**$ 497,255,085**	**$ 414,604,309**
LIABILITIES		
Mortgage loans, net	$ 354,529,454	$ 297,318,816
Unsecured notes, net	23,635,174	—
Accounts payable and other accrued liabilities	17,277,577	13,813,623
Advance deposits	1,861,704	1,572,388
Dividends and distributions payable	3,352,750	3,119,027
TOTAL LIABILITIES	**$ 400,656,659**	**$ 315,823,854**
Commitments and contingencies (see Note 6)	—	—
PARTNERS' CAPITAL		
Preferred units, $0.01 par value, 11,000,000 units authorized;		
8% Series B cumulative redeemable perpetual preferred units, liquidation preference $25 per unit, 1,610,000 units issued and outstanding at June 30, 2018 and December 31, 2017, respectively	37,766,531	37,766,531
7.875% Series C cumulative redeemable perpetual preferred units, liquidation preference $25 per unit, 1,300,000 units issued and outstanding at June 30, 2018 and December 31, 2017, respectively	30,488,660	30,488,660
General Partner: 158,993 units and 158,570 units issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	591,835	586,725
Limited Partners: 15,740,228 units and 15,698,401 units issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	27,751,400	29,938,539
TOTAL PARTNERS' CAPITAL	**96,598,426**	**98,780,455**
TOTAL LIABILITIES AND PARTNERS' CAPITAL	**$ 497,255,085**	**$ 414,604,309**

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, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
REVENUE				
Rooms department	$ 35,330,676	$ 28,906,872	$ 63,616,121	$ 56,273,506
Food and beverage department	11,080,568	8,583,358	19,432,551	16,907,117
Other operating departments	5,142,283	3,152,402	10,240,411	6,156,895
Total revenue	**51,553,527**	**40,642,632**	**93,289,083**	**79,337,518**
EXPENSES				
Hotel operating expenses				
Rooms department	8,176,164	6,743,788	14,876,545	13,426,067
Food and beverage department	7,673,049	6,151,495	14,068,125	11,879,968
Other operating departments	1,680,582	623,530	3,208,909	1,223,550
Indirect	17,640,285	15,605,262	32,873,541	29,810,493
Total hotel operating expenses	**35,170,080**	**29,124,075**	**65,027,120**	**56,340,078**
Depreciation and amortization	5,601,940	4,219,712	11,236,130	8,280,809
Loss on disposal of assets	—	51,507	3,739	51,507
Corporate general and administrative	1,503,549	1,834,930	3,049,849	3,547,012
Total operating expenses	**42,275,569**	**35,230,224**	**79,316,838**	**68,219,406**
NET OPERATING INCOME	**9,277,958**	**5,412,408**	**13,972,245**	**11,118,112**
Other income (expense)				
Interest expense	(5,087,482)	(3,874,076)	(9,264,501)	(7,687,793)
Interest income	66,505	13,294	148,209	72,925
Loss on early extinguishment of debt	—	(228,087)	—	(228,087)
Unrealized gain (loss) on hedging activities	5,798	(11,261)	18,528	(27,206)
Gain on sale of assets	—	—	—	100,407
Gain on involuntary conversion of assets	27,824	—	898,565	1,041,815
Net income before income taxes	**4,290,603**	**1,312,278**	**5,773,046**	**4,390,173**
Income tax provision	(1,323,014)	(196,483)	(1,628,969)	(368,420)
Net income	**2,967,589**	**1,115,795**	**4,144,077**	**4,021,753**
Distributions to preferred unit holder	(1,444,844)	(805,000)	(2,889,688)	(1,610,000)
Net income available to operating partnership unit holders	**$ 1,522,745**	**$ 310,795**	**$ 1,254,389**	**$ 2,411,753**
Net income attributable per operating partner unit				
Basic and diluted	$ 0.10	$ 0.02	$ 0.08	$ 0.15
Weighted average number of operating partner units outstanding				
Basic and diluted	15,899,221	16,258,691	15,895,885	16,255,708

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

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL

	Preferred Units			General Partner		Limited Partner		
	Units	Series B Amounts	Series C Amounts	Units	Amounts	Units	Amounts	Total
Balances at December 31, 2017	**2,910,000**	**$37,766,531**	**$30,488,660**	**158,570**	**$ 586,725**	**15,698,401**	**$29,938,539**	**$98,780,455**
Issuance of common partnership units	—	—	—	423	1,033	41,827	102,295	103,328
Amortization of restricted units award	—	—	—	—	—	—	16,050	16,050
Unit based compensation	—	—	—	—	—	—	180,521	180,521
Preferred units distributions declared	—	(2,889,688)	—	—	—	—	—	(2,889,688)
Partnership units distributions declared	—	—	—	—	(37,364)	—	(3,698,953)	(3,736,317)
Net income	—	2,889,688	—	—	41,441	—	1,212,948	4,144,077
Balances at June 30, 2018 (unaudited)	**2,910,000**	**$37,766,531**	**$30,488,660**	**158,993**	**$ 591,835**	**15,740,228**	**$27,751,400**	**$96,598,426**

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, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net income	$ 4,144,077	$ 4,021,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,236,130	8,280,809
Amortization of deferred financing costs	462,469	414,366
Amortization of mortgage premium	(12,341)	(12,341)
Gain on involuntary conversion of assets	(898,565)	(1,041,815)
Unrealized loss on derivative instrument	(18,528)	27,206
Loss (gain) on sale or disposal of assets	3,739	(48,900)
Loss on early extinguishment of debt	—	228,087
Unit - based compensation	299,898	217,086
Changes in assets and liabilities:		
Accounts receivable	(4,415,667)	840,630
Prepaid expenses, inventory and other assets	1,014,182	(1,377,186)
Deferred income taxes	1,521,929	257,996
Accounts payable and other accrued liabilities	2,911,180	1,438,743
Advance deposits	67,091	(555,560)
Accounts receivable - affiliate	(32,015)	(559,730)
Net cash provided by operating activities	**16,283,579**	**12,131,144**
Cash flows from investing activities:		
Acquisitions of hotel properties	(79,732,716)	(3,986,849)
Improvements and additions to hotel properties	(10,563,930)	(12,480,207)
Proceeds from the sale of hotel property	—	5,434,856
ESOP loan advances	—	(4,874,758)
ESOP loan payments received	94,908	—
Proceeds from involuntary conversion	222,553	1,041,815
Proceeds from the sale or disposal of assets	—	3,355
Net cash used in investing activities	**(89,979,185)**	**(14,861,788)**
Cash flows from financing activities:		
Proceeds of mortgage debt	65,300,000	35,500,000
Proceeds of unsecured debt	25,000,000	—
Settlement or repurchase of common units	—	(1,103,130)
Payments on mortgage loans	(7,707,048)	(23,647,602)
Payments of deferred financing costs	(2,197,268)	(585,004)
Distributions and dividends paid	(3,502,593)	(3,130,094)
Preferred dividends paid	(2,889,688)	(1,610,000)
Net cash provided by financing activities	**74,003,403**	**5,424,170**
Net (decrease) increase in cash, cash equivalents and restricted cash	307,797	2,693,526
Cash, cash equivalents and restricted cash at the beginning of the period	33,429,042	36,362,919
Cash, cash equivalents and restricted cash at the end of the period	**$ 33,736,839**	**$ 39,056,445**
Supplemental disclosures:		
Cash paid during the period for interest	**$ 8,769,755**	**$ 3,513,312**
Cash paid during the period for income taxes	**$ 280,552**	**$ 81,361**
Non-cash investing and financing activities:		
Change in proceeds of involuntary conversion in accounts receivable	**$ 676,013**	**$ -**
Change in amount of improvements to hotel property in accounts payable and accrued liabilities	**$ 91,556**	**$ 1,141,553**

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

1. Organization and Description of Business

Sotherly Hotels Inc. (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 3,156 rooms, and the hotel commercial condominium unit of the Hyde Resort & Residences condominium hotel. The Company owns hotels that operate under well-known brands such as DoubleTree by Hilton, Tapestry Collection by Hilton, Crowne Plaza, Sheraton and Hyatt, as well as independent hotels.

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 (the "Operating Partnership"), which at June 30, 2018, was approximately 88.8% owned by the Company. 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, as general partner, conducts substantially all of its operations through the Operating Partnership and 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, through its subsidiaries, leases the hotels to direct and indirect subsidiaries of MHI Hospitality TRS Holding, Inc. (collectively, "MHI TRS"), which is a wholly-owned subsidiary of the Operating Partnership. MHI TRS then engages eligible independent hotel management companies, including MHI Hotels Services, LLC, which does business as Chesapeake Hospitality ("Chesapeake Hospitality") and Highgate Hotels, L.P. ("Highgate Hotels"), to operate the hotels under management contracts. 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 January 30, 2017, we closed on the purchase of the commercial condominium unit of the Hyde Resort & Residences, a 400-unit condominium hotel located in the Hollywood, Florida market, for an aggregated price of approximately $4.8 million from 4111 South Ocean Drive, LLC. In connection with the closing of the transaction, we entered into a lease agreement for the 400-space parking garage and meeting rooms associated with the condominium hotel, agreements relating to the operation and management of the hotel condominium association and a condominium unit rental program, and a pre-opening services agreement whereby the seller paid us a fee of approximately $0.8 million for certain pre-opening related preparations.

On February 7, 2017, we closed on the sale of the Crowne Plaza Hampton Marina to Marina Hotels, LLC for a price of $5.6 million.

On June 1, 2017, we entered into an agreement to purchase the commercial unit of the planned Hyde Beach House Resort & Residences, a condominium hotel under development in Hollywood, Florida, for a price of $5.1 million from 4000 South Ocean Property Owner, LLLP. In connection with the agreement, we also entered into a pre-opening services agreement whereby the seller has agreed to pay us approximately $0.8 million in connection with certain pre-opening activities to be undertaken prior to the closing. We have agreed to purchase inventories at closing consistent with the management and operation of the hotel and the related condominium association for an additional amount and has further agreed to enter into a lease agreement for the parking garage and poolside cabanas associated with the hotel; and to enter into a management agreement relating to the operation and management of the hotel's condominium association. We anticipate that the closing of the transaction and the execution of related agreements will take place in the second quarter of 2019, once construction of the hotel has been substantially completed. The closing of the transaction is subject to various closing conditions as described in the purchase agreement.

On June 29, 2017, we entered into a promissory note and other loan documents to secure a $35.5 million mortgage on the DoubleTree by Hilton Jacksonville Riverfront with Wells Fargo Bank, N.A. Pursuant to the loan documents, the loan has a maturity date of July 11, 2024, bears a fixed interest rate of 4.88%, amortizes on a 30-year schedule, and is subject to a prepayment premium following a prepayment lockout period. We used a portion of the proceeds to repay the existing first mortgage on the DoubleTree by Hilton Jacksonville Riverfront, to pay closing costs and for general corporate purposes.

On October 11, 2017, we closed a sale and issuance of 1,200,000 shares of its newly authorized 7.875% Series C Cumulative Redeemable Perpetual Preferred Stock (the “Series C Preferred Stock”), for net proceeds after all estimated expenses of approximately $28.0 million. On October 17, 2017, the Company closed a sale and issuance of an additional 100,000 shares of its Series C Preferred Stock, for net proceeds of approximately $2.5 million, pursuant to the underwriters’ partial exercise of an option granted by the Company to purchase additional shares. The Company contributed the net proceeds from the offering to its Operating Partnership for an equivalent number of Series C Cumulative Redeemable Perpetual Preferred Units (the “Series C Preferred Units”). We used the net proceeds to redeem in full the Operating Partnership’s 7.0% senior unsecured notes (the “7% Notes”) and for working capital.

On November 15, 2017, the Operating Partnership redeemed the entire $25.3 million principal amount of the 7% Notes, at a redemption price equal to 101% of the principal amount of the 7% Notes, plus any accrued and unpaid interest to, but not including, the redemption date.

On February 1, 2018, we received proceeds of $5.0 million on the Hilton Wilmington Riverside mortgage loan after meeting certain requirements, per the mortgage documents.

On February 12, 2018, the Company and the Operating Partnership closed on a sale and issuance by the Operating Partnership of an aggregate $25.0 million of the 7.25% senior unsecured notes due 2021 (the “7.25% Notes”), unconditionally guaranteed by the Company, for net proceeds after all estimated expenses of approximately $23.3 million. The Operating Partnership used the net proceeds from this offering, together with existing cash on hand and $57.0 million of asset-level mortgage indebtedness, to finance the acquisition of the Hyatt Centric Arlington hotel and for working capital.

On February 26, 2018, we entered into a First Amendment to Loan Agreement, Amended and Restated Promissory Note, and other related documents with International Bank of Commerce to amend the terms of the mortgage loan on The Whitehall hotel located in Houston, TX. Pursuant to the amended loan documents, payments of principal and interest on a 25-year amortization schedule have begun and the maturity date was extended until February 26, 2023.

On March 1, 2018, we acquired the 318-room Hyatt Centric Arlington hotel located in Arlington, Virginia for an aggregate purchase price of $79.8 million, including seller credits (the “Arlington Acquisition”). Per the Financial Accounting Standards Board (“FASB”) we have considered this acquisition to be an asset acquisition and not a business combination, applying the screen test, as discussed in the Accounting Standards Update 2017-01 – Business Combinations – Clarifying the Definition of a Business (Topic 805). Concurrently with the closing, we entered into a franchise agreement with an affiliate of Hyatt Hotels Corporation for the hotel to continue operating as the Hyatt Centric Arlington, and a management agreement with Highgate Hotels for the management of the hotel. The management agreement: (i) has an initial term of three years commencing March 1, 2018; (ii) provides for a base management fee equal to 2.50% of gross revenues; and (iii) provides for an incentive management fee equal to 10% of the amount by which gross operating profit, as defined in the management agreement, for a given year exceeds the budgeted gross operating profit for such year; provided, however, that the incentive management fee payable in respect of any year shall not exceed 0.5% of the gross revenues of the hotel. The Hyatt Centric Arlington is subject to a long-term ground lease agreement that covers all of the land underlying the hotel. The ground lease requires us to make rental payments of $50,000 per year in base rent and percentage rent equal to 3.5% of gross rooms revenues in excess of certain thresholds, as defined in the agreements. The initial term of the ground lease expires in 2025 and may be extended by us for five additional renewal periods of 10 years each.

On March 1, 2018, we entered into a loan agreement, a first and second promissory note (“Note A” and “Note B”, respectively), and other loan documents, including a guarantee by the Operating Partnership, to secure an aggregate $57.0 million mortgage (the “Mortgage Loan”) on the Hyatt Centric Arlington hotel with Fifth Third Bank. Pursuant to the Mortgage Loan documents, Note A had an original principal balance in the amount of $50.0 million; has a term of 3 years, with two 1-year extension options, each of which is subject to certain criteria; bears a floating interest rate of one-month LIBOR plus 3.00%, payable monthly; and requires monthly principal payments of $78,650. Pursuant to the Mortgage Loan documents, Note B had an original principal balance in the amount of $7.0 million; has a term of 1-year, with two 1-year extension options, each of which is subject to certain criteria; bears a floating interest rate of three-month LIBOR plus 5.00%, payable monthly; and requires monthly principal payments of $100,000 during the initial 1-year term, $150,000 during the first 1-year extended term, and $250,000 during the second 1-year extended term, with interest payments due monthly on the outstanding principal amount during all three terms. The full amount of the loan proceeds, together with proceeds of the 7.25% Notes offering and cash on hand, were used to finance the Arlington Acquisition.

On May 10, 2018, we reduced the Note B loan by approximately $4.0 million to remain in compliance with our loan covenants.

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 permanent 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.

Assets Held For Sale – We record 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 net realizable value, 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, 2018 and December 31, 2017 were $501,734 and $532,070, respectively. Amortization expense for the three-month periods ended June 30, 2018 and 2017, totaled $13,304 and $29,494, respectively, and for the six-month periods ended June 30, 2018 and 2017, totaled $30,336 and $60,946, respectively.

Favorable Lease Assets, Net – Favorable lease assets are recorded on non-market contracts assumed as part of the acquisition of certain hotels. We review the terms of agreements assumed in conjunction with the purchase of a hotel to determine if the terms are favorable or unfavorable compared to an estimated market agreement at the acquisition date. Favorable lease assets are recorded at the acquisition date and amortized using straight-line method over the term of the remaining agreement. Amortization expense for each of the three and six-month periods ended June 30, 2018 totaled $126,432.

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.

Deferred offering costs are netted against our equity offerings when the 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 currently use an interest rate cap which acts as a cash flow hedge and is not designated as a 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 assets and liabilities measured at fair value and the basis for that measurement (our interest rate cap is the only asset or liability measured at fair value on a recurring basis and there were no non-recurring asset and liability fair value measurements as of June 30, 2018 and December 31, 2017, respectively):

	Level 1	Level 2	Level 3
December 31, 2017			
Interest Rate Cap (1)	$ —	$ 5,213	$ —
Mortgage loans (2)	$ —	$(292,368,370)	$ —
June 30, 2018			
Interest Rate Cap (1)	$ —	$ 23,741	$ —
Mortgage loans (2)	$ —	$(347,839,825)	$ —
Unsecured notes (3)	$ (25,800,000)	$ —	$ —

(1) Interest rate cap, which caps the 1-month LIBOR rate at 2.5%.
(2) Mortgage loans are reflected at outstanding principal balance, net of deferred financing costs on our Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017.
(3) Unsecured notes are recorded at outstanding principal balance, net of deferred financing costs on our Consolidated Balance Sheets as of June 30, 2018.

Noncontrolling Interest in Operating Partnership – Certain hotel properties were 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 and condominium hotel 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, rentals from restaurant tenants, rooftop leases, fees earned on the management of the condominium rental program at the Hyde Resort & Residences and insurance proceeds of business interruption coverage. Revenues are reported net of occupancy and other taxes collected from customers and remitted to governmental authorities. Refer to "New Accounting Pronouncements - ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*," below for further discussion of revenue recognition.

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, for each of the three months ended June 30, 2018 and 2017, respectively, and approximately $0.9 million for each of the six months ended June 30, 2018 and 2017, respectively.

A schedule of minimum future lease payments receivable for the remaining six and twelve-month lease periods is as follows:

For the remaining six months ending: December 31, 2018	$	755,705
December 31, 2019		961,982
December 31, 2020		956,021
December 31, 2021		892,694
December 31, 2022		774,835
December 31, 2023 and thereafter		4,266,893
Total	**$**	**8,608,130**

Variable Interest Entities – The Operating Partnership is a variable interest entity. The Company's only significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership and its subsidiaries. All of the Company's debt is an obligation of the Operating Partnership and its subsidiaries.

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, 2018 and December 31, 2017, deferred tax assets totaled approximately $3.9 million and $5.5 million, respectively, of which approximately $3.3 million and $4.9 million relate to net operating losses of our TRS Lessee. A valuation allowance is required for deferred tax assets if, based on all available evidence, it is "more-likely-than-not" that all or a portion of the deferred tax asset will or will not be realized due to the inability to generate sufficient taxable income in certain financial statement periods. The "more-likely-than-not" analysis means the likelihood of realization is greater than 50%, that we will or will not be able to fully utilize the deferred tax assets against future taxable income. The net amount of deferred tax assets that are recorded on the financial statements must reflect the tax benefits that are expected to be realized using these criteria. We perform this analysis by evaluating future hotel revenues and expenses accounting for certain non-recurring costs and expenses during the current and prior two fiscal years as well as anticipated changes in the lease rental payments from the TRS Lessee to subsidiaries of the Operating Partnership. We have determined that it is more-likely-than-not that we will be able to fully utilize our deferred tax assets for future tax consequences, therefore no valuation allowance is required.

As of June 30, 2018 and December 31, 2017, 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, 2018, the tax years that remain subject to examination by the major tax jurisdictions to which the Company is subject generally include 2010 through 2017. In addition, as of June 30, 2018, the tax years that remain subject to examination by the major tax jurisdictions to which MHI TRS is subject include the years 2009 and 2014 through 2016.

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, unrestricted 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 made 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. All of the 255,938 shares issued to certain of our executives and employees have vested. 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 163,350 shares, including 77,600 non-restricted shares to certain executives and employees and 85,750 restricted shares issued to its independent directors. All awards have vested except for 25,000 shares issued to one employee, which will vest over 5 years and 15,000 shares issued to the Company's independent directors in February 2018, which will vest by December 31, 2018.

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, 2018, no performance-based stock awards have been granted. Total compensation cost recognized under the 2004 Plan and the 2013 Plan for the three months ended June 30, 2018 and 2017 was $8,025 and $4,980, respectively and for the six months ended June 30, 2018 and 2017 was $119,378 and $99,120, respectively.

Additionally, the Company sponsors and maintains an Employee Stock Ownership Plan ("ESOP") and related trust for the benefit of its eligible employees. We reflect unearned ESOP shares as a reduction of stockholders' equity. Dividends on unearned ESOP shares, when paid, are considered compensation expense. The Company recognizes compensation expense equal to the fair value of the Company's ESOP shares during the periods in which they are committed to be released. To the extent that the fair value of the Company's ESOP shares differs from the cost of such shares, the differential is recognized as additional paid in capital. Because the ESOP is internally leveraged through a loan from the Company to the ESOP, the loan receivable by the Company from the ESOP is not reported as an asset nor is the debt of the ESOP shown as a liability in the consolidated financial statements.

Advertising – Advertising costs were $147,804 and $85,094 for the three months ended June 30, 2018 and 2017, respectively and were $246,117 and $150,104 for the six months ended June 30, 2018 and 2017, respectively. Advertising costs are expensed as incurred.

Involuntary Conversion of Assets – We record gains or losses on involuntary conversions of assets due to recovered insurance proceeds to the extent the undepreciated cost of a nonmonetary asset differs from the amount of monetary proceeds received. During the three-month periods ending June 30, 2018 and 2017, we recognized $27,824 and $0, respectively, and during the six-month periods ending June 30, 2018 and 2017, we recognized approximately $0.9 million and $1.0 million, respectively, in gain on involuntary conversion of assets, which is reflected in the consolidated statements of operations.

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.

Reclassifications - Certain reclassifications have been made to the prior period's financial statements to conform to the current year presentation. We have adopted ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash,* whereby the restricted cash balances are reflected in the total Cash, Cash Equivalents and Restricted Cash for both current and prior year presentation. We have also reclassified gain (loss) on disposal of assets in the prior period's consolidated statements of operations, to separate disposals related to changes in estimated useful lives of assets, from assets which were disposed of by sale in the respective periods.

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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.

New Accounting Pronouncements – In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of hedge accounting. This ASU will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. We adopted this ASU on January 1, 2018 and aside from minor presentation changes in our disclosure on derivative and hedging activities it did not have a material effect on our consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20).* The FASB issued this update to clarify the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. The amendments in this update also simplify GAAP by eliminating several accounting differences between transactions involving assets and transactions involving businesses in many transactions related to: a partial sale of real estate; a transfer of a nonfinancial asset within the scope of FASB ASC Topic 845, *Nonmonetary Transactions*; a contribution of a nonfinancial asset to form a joint venture; and a transfer of a nonfinancial asset to an equity method investee. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted this ASU as of January 1, 2018. This ASU did not have a material impact on our current consolidated balance sheets, statements of operations or cash flows, however this ASU may have a significant impact on future transactions.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations – Clarifying the Definition of a Business (Topic 805).* This ASU clarifies the definition of a business and adds further guidance in evaluating whether a transaction should be accounted for as an acquisition of an asset or a business. This standard will be effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. We adopted this ASU on January 1, 2018 and will evaluate future hotel acquisitions to determine the appropriate treatment accordingly, generally expecting that certain transactions will qualify for treatment as an asset acquisition. The effects are primarily related to the treatment of acquisition costs, which in the case of asset purchases, are capitalized on the consolidated balance sheets, and in the case of business combinations are typically expensed into the consolidated statements of operations.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU addresses the diversity within entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted this ASU on January 1, 2018 and aside from minor presentation changes in its disclosure on restricted cash, it did not have a material effect on our consolidated balance sheets, statements of operations or cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. Current GAAP either is unclear or does not include specific guidance on the eight cash flow classification issues included in the amendments in this update. The amendments are an improvement to GAAP because they provide guidance for each of the eight issues, thereby reducing the current and potential future diversity in practice. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted this ASU as of January 1, 2018. The adoption of this ASU did not have a material impact on our current consolidated balance sheets, statements of operations or cash flows.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers – Narrow-Scope Improvements and Practical Expedients (Topic 606)*. The amendments in this ASU provide clarification to certain core recognition principles related to ASU No. 2014-09 including collectability, sales tax presentation, noncash consideration, contract modifications and completed contracts at transition and disclosures no longer required if the full retrospective transition method is adopted. The amendments do not change the core principle of the guidance. We adopted this ASU as of January 1, 2018. We evaluated all of our revenue related to contracts with customers and determined how to transition these requirements into our consolidated financial statements. Refer to "New Accounting Pronouncements - ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*," below for further discussion of revenue recognition.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing (Topic 606)*. This update clarifies guidance related to identifying performance obligations and licensing implementation contained in ASU No. 2014-09. The amendments do not change the core principle of the guidance. We have analyzed all of our revenue related to contracts with customers and have determined how to transition these requirements into our consolidated financial statements. We adopted this ASU as of January 1, 2018. The adoption of this ASU did not have a material impact on our consolidated balance sheets, statements of operations or cash flows. Refer to "New Accounting Pronouncements - ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*," below for further discussion of revenue recognition.

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 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. We are creating an inventory of our leases and are analyzing our current ground lease, office lease, other right-of-use assets and lease liabilities. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We will adopt this ASU as of January 1, 2019.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for us on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. By working in conjunction with our hotel operators, we completed our evaluation of the effect that ASU No. 2014-09 will have on our consolidated financial statements and our evaluation of each of our revenue streams under the new standard. Because of the short-term, day-to-day nature of our hotel revenues, we determined that the pattern of revenue recognition will not change significantly. Under ASU No. 2014-09, there will be a recharacterization of certain revenue streams affecting both gross and net revenue reporting due to changes in principal versus agent guidance, which presentation is deemed immaterial for us and will not affect net income. Additionally, we do not sell hotel properties to customers as defined by FASB, but have historically disposed of hotel properties for cash sales with no contingencies and no future involvement in the hotel operations, and therefore, ASU No. 2014-09 will not impact the recognition of hotel sales. We finalized our expanded disclosure for the notes to the consolidated financial statements pursuant to the new requirements. We adopted this ASU on our effective date of January 1, 2018 under the cumulative effect transition method. No adjustment was recorded to our opening balance of retained earnings on January 1, 2018 as there was no impact to net income. Additionally, comparative information beginning in 2018 will not be restated and will continue to be reported under Revenue Recognition (Topic 605). We also expect that the effect of ASU No. 2014-09 will be immaterial on an on-going basis.

3. Acquisition of Hotel Properties

Hyatt Centric Arlington. On March 1, 2018, we acquired the Hyatt Centric Arlington hotel, for a total fair value of consideration transferred including inventory and other assets of approximately $79.7 million (after amendment of the initial purchase price of $81.0 million). We considered this acquisition to be an asset acquisition as opposed to a business combination, applying the screen test, as discussed in the Accounting Standards Update 2017-01 – Business Combinations – Clarifying the Definition of a Business (Topic 805).

Hyde Resort & Residences. On January 30, 2017, we acquired the hotel commercial condominium unit of the Hyde Resort & Residences condominium hotel, for a total fair value of consideration transferred including inventory and other assets of approximately $4.8 million.

The allocations of the respective purchase prices are based on fair values are as follows:

	Hyatt Centric Arlington	Hyde Resort & Residences
Land and land improvements	$ 190,916	$ 500
Buildings and improvements	70,369,046	4,309,500
Furniture, fixtures and equipment	6,229,888	72,616
Intangible assets	3,054,812	—
Investment in hotel properties	79,844,662	4,382,616
Accrued liabilities and other costs	(111,946)	(866,142)
Prepaid expenses, inventory and other assets	—	470,375
Net cash	**$ 79,732,716**	**$ 3,986,849**

The results of operations of the hotels are included in our consolidated financial statements from the date of acquisition. The total revenue and net income related to the Hyatt Centric Arlington acquisition for the period March 1, 2018 to June 30, 2018 are approximately $8.6 million and $2.1 million, respectively.

The total revenue and net income related to the Hyde Resort & Residences acquisition for the period January 1, 2018 to June 30, 2018 are approximately $3.8 million and $0.4 million, respectively and for the period January 30, 2017 to June 30, 2017 are approximately $1.6 million and $0.3 million, respectively.

4. Investment in Hotel Properties, Net

Investment in hotel properties, net as of June 30, 2018 and December 31, 2017 consisted of the following:

	June 30, 2018	December 31, 2017
Land and land improvements	$ 60,474,303	$ 59,504,625
Buildings and improvements	420,757,649	348,532,577
Furniture, fixtures and equipment	57,505,372	48,467,956
	538,737,324	456,505,158
Less: accumulated depreciation and impairment	(104,451,866)	(98,705,646)
Investment in Hotel Properties, Net	**$ 434,285,458**	**$ 357,799,512**

The Crowne Plaza Hampton Marina property, was sold on February 7, 2017 for approximately $5.6 million. After selling costs, mortgage loan payoff and associated fees we realized an approximate gain on the sale of assets of $0.1 million, as reflected in the consolidated statements of operations for the period ending June 30, 2017.

5. Debt

Mortgage Loans, Net. As of June 30, 2018 and December 31, 2017, we had approximately $354.5 million and approximately $297.3 million of outstanding mortgage debt, respectively. The following table sets forth our mortgage debt obligations on our hotels.

Property	Balance Outstanding as of June 30, 2018	Balance Outstanding as of December 31, 2017	Prepayment Penalties	Maturity Date	Amortization Provisions	Interest Rate
Crowne Plaza Tampa Westshore (1)	$ 18,445,600	$ 15,284,200	None	6/30/2019	(1)	LIBOR plus 3.75 %
The DeSoto (2)	34,239,496	34,645,929	Yes	7/1/2026	25 years	4.25%
DoubleTree by Hilton Jacksonville Riverfront (3)	35,034,982	35,294,741	Yes	7/11/2024	30 years	4.88%
DoubleTree by Hilton Laurel (4)	8,993,770	9,132,558	Yes	8/5/2021	25 years	5.25%
DoubleTree by Hilton Philadelphia Airport (5)	30,060,602	30,432,260	None	4/1/2019	25 years	LIBOR plus 3.00 %
DoubleTree by Hilton Raleigh Brownstone University (6)	14,361,098	14,503,925	n/a	8/1/2018	30 years	4.78%
DoubleTree Resort by Hilton Hollywood Beach (7)	57,538,334	58,023,567	n/a	10/1/2025	30 years	4.913%
Georgian Terrace (8)	44,614,206	45,032,662	n/a	6/1/2025	30 years	4.42%
Hotel Ballast Wilmington, Tapestry Collection by Hilton(9)	34,640,256	30,000,000	Yes	1/1/2027	25 years	4.25%
Hyatt Centric Arlington - Note A (10)	49,685,400	—	None	3/1/2021	(10)	LIBOR plus 3.00 %
Hyatt Centric Arlington - Note B (11)	2,575,000	—	None	3/1/2019	(11)	LIBOR plus 5.00 %
Sheraton Louisville Riverside (12)	11,559,647	11,701,930	Yes	12/1/2026	25 years	4.27%
The Whitehall (13)	14,896,332	15,000,000	Yes	2/26/2023	25 years	LIBOR plus 3.50 %
Total Mortgage Principal Balance	**$ 356,644,723**	**$ 299,051,772**				
Deferred financing costs, net	(2,293,902)	(1,923,928)				
Unamortized premium on loan	178,633	190,972				
Total Mortgage Loans, Net	**$ 354,529,454**	**$ 297,318,816**				

(1) The note provides initial proceeds of $15.7 million, with an additional $3.3 million available upon the satisfaction of certain conditions; bears a floating interest rate of 1-month LIBOR plus 3.75% subject to a floor rate of 3.75%; with monthly principal payments of $23,100; the note provides that the mortgage can be extended for two additional periods of one year each, subject to certain conditions. On April 5, 2018, we drew down an additional $3.3 million of loan proceeds in accordance with the terms of the note.

(2) The note provides initial proceeds of $30.0 million, with an additional $5.0 million available upon the satisfaction of certain conditions, namely, the completion of a renovation project; amortizes on a 25-year schedule after a 1-year interest-only period; and is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.

(3) The note may not be prepaid until August 2019, after which it is subject to a pre-payment penalty until March 2024. Prepayment can be made without penalty thereafter.

(4) 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.

(5) The note bears a minimum interest rate of 3.50%.

(6) With limited exception, the note may not be prepaid until two months before maturity.

(7) With limited exception, the note may not be prepaid until June 2025.

(8) With limited exception, the note may not be prepaid until February 2025.

(9) The note provided initial proceeds of $30.0 million and additional proceeds of $5.0 million which were received following the substantial completion of the renovation project in February 2018; amortizes on a 25-year schedule after a 1-year interest-only period; and is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.

(10) The note has a term of 3 years, with two 1-year extension options, each of which are subject to certain criteria. The note requires monthly principal payments of $78,650.

(11) The note has a term of 1 year, with two 1-year extension options, each of which are subject to certain criteria. The note requires monthly principal payments of $100,000 during the initial 1-year term, $150,000 during the first 1- year extended term, and $250,000 during the second 1-year extended term, with interest payments due monthly on the outstanding principal amount during all three terms. On May 10, 2018, we reduced Note B by approximately $4.0 million.

(12) The note bears a fixed interest rate of 4.27% for the first 5 years of the loan, with an option for the lender to reset the interest rate after 5 years.

(13) The note was amended in February 2018 to extend the maturity date until February 26, 2023. The amended note has an initial principal balance of $15.0 million, with no additional proceeds available; bears a floating interest rate of the 1-month LIBOR plus 3.5%, subject to a floor rate of 4.0% and is subject to prepayment penalties subject to a declining scale from 3.0% penalty on or before the first anniversary date, a 2.0% penalty during the second anniversary year and a 1.0% penalty after the third anniversary date.

As of June 30, 2018, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans. As previously disclosed, we reduced Note B to the Hyatt Centric Arlington mortgage loan by approximately $4.0 million on May 10, 2018 in order to remain in compliance with the loan covenants.

Total future mortgage debt maturities, without respect to any extension of loan maturity, as of June 30, 2018 were as follows:

For the remaining six months ending: December 31, 2018	$	50,157,159
December 31, 2019		27,018,765
December 31, 2020		7,255,127
December 31, 2021		70,448,242
December 31, 2022		5,047,909
December 31, 2023 and thereafter		196,717,521
Total future maturities	$	356,644,723

7.25% Unsecured Notes. On February 12. 2018, the Operating Partnership issued its 7.25% Notes in the aggregate amount of $25.0 million, unconditionally guaranteed by the Company. The indenture requires quarterly payments of interest and matures on February 15, 2021. The 7.25% Notes are callable after February 15, 2019 at 101% of face value.

6. Commitments and Contingencies

Ground, Building and Submerged Land Leases – We lease 2,086 square feet of commercial space next to The 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 third 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 each of the three and six months ended June 30, 2018 and 2017 totaled $18,245 and $36,491, respectively.

We lease, as landlord, the entire fourteenth floor of The DeSoto 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 leased a portion of the parking lot adjacent to the DoubleTree by Hilton Raleigh 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 expired 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 months ended June 30, 2018 and 2017, totaled $27,866 and $23,871, respectively and for the six months ended June 30, 2018 and 2017, rent expense totaled $54,400 and $47,741, respectively. See FN-14, Subsequent Events for the details on the purchase of the land under the ground lease.

We lease land adjacent to the Crowne Plaza Tampa Westshore for use as parking under a five-year renewable 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 each of the three and six months ended June 30, 2018 and 2017, totaled $651 and $1,301, 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 each of the three months ended June 30, 2018 and 2017 totaled $22,552, and for each of the six months ended June 30, 2018 and 2017, totaled $45,104.

We lease the parking garage adjacent to the Hyde Resort & Residences in Hollywood Beach, Florida, along with meeting and office spaces. The 20-year operating lease requires monthly payments of $20,000, which expires in February 2037. Rent expense for each of the three months ended June 30, 2018 and 2017, totaled $60,000 and for the six months ended June 30, 2018 and 2017, totaled $120,000 and $80,000, respectively.

We lease the land underlying all of the Hyatt Centric Arlington hotel pursuant to a ground lease. The ground lease requires us to make rental payments of $50,000 per year in base rent and percentage rent equal to 3.5% of gross room revenue in excess of certain thresholds, as defined in the ground lease agreement. The initial term of the ground lease expires in 2025 and may be extended by us for five additional renewal periods of 10 years each. Rent expense for the three and six months ended June 30, 2018 was $190,634 and $255,229, respectively.

We also lease certain furniture and equipment under financing arrangements expiring between August 2018 and August 2026.

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

For the remaining six months ending: December 31, 2018	$	297,744
December 31, 2019		484,075
December 31, 2020		364,163
December 31, 2021		354,639
December 31, 2022		351,464
December 31, 2023 and thereafter		3,920,165
Total	**$**	**5,772,250**

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 – As of June 30, 2018, the Hyatt Centric Arlington hotel operated under a management agreement with Highgate Hotels L.P. The management agreement has an initial term of three years expiring March 1, 2021.

As of June 30, 2018, the eleven remaining wholly-owned hotels and the rental program and condominium association of the Hyde Resort & Residences operated under a management agreement with Chesapeake Hospitality (see Note 9). The management agreements expire between January 1, 2020 and January 30, 2022, and may be extended for up to two additional periods of five years each subject to the approval of both parties. 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, 2018, nine of our hotels operated under franchise licenses from national hotel companies. Under the franchise agreements, we are required to pay a franchise fee generally between 3.0% 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 June 2019 and March 2038. 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 Hotel Ballast, The DeSoto, the DoubleTree by Hilton Raleigh Brownstone-University, the DoubleTree by Hilton Jacksonville Riverside, the DoubleTree Resort by Hilton Hollywood Beach, and the Georgian Terrace an amount equal to one-twelfth (1/12) 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 Hotel Ballast, The DeSoto, the DoubleTree by Hilton Raleigh Brownstone–University, the DoubleTree by Hilton Jacksonville Riverside, the DoubleTree Resort by Hilton Hollywood Beach, The Whitehall, and the Georgian Terrace and equal 4.0% of room revenues for the DoubleTree by Hilton Philadelphia Airport.

ESOP Loan Commitment – The Company's board of directors approved the ESOP on November 29, 2016, which was adopted by the Company in December 2016 and effective January 1, 2016. The ESOP is a non-contributory defined contribution plan covering all employees of the Company. The ESOP is a leveraged ESOP, meaning the contributed funds are loaned to the ESOP from the Company. The Company entered into a loan agreement with the ESOP on December 29, 2016, pursuant to which the ESOP may borrow up to $5.0 million to purchase shares of the Company's common stock on the open market. Under the loan agreement, the aggregate principal amount outstanding at any time may not exceed $5.0 million and the ESOP may borrow additional funds up to that limit in the future, until December 29, 2036.

Litigation –To our knowledge, no material litigation has been 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.

7. Preferred Stock and Units

Preferred Stock - The Company is authorized to issue up to 11,000,000 shares of preferred stock. As of June 30, 2018 and December 31, 2017, there were 1,610,000 shares and 1,610,000 shares, respectively, of the Series B Cumulative Redeemable Perpetual Preferred Stock (the "Series B Preferred Stock") issued and outstanding. As of June 30, 2018 and December 31, 2017, there were 1,300,000 shares and 1,300,000 shares, respectively, of the Series C Preferred Stock issued and outstanding.

In October 2017, the Company issued 1,300,000 shares of Series C Preferred Stock, for net proceeds after all estimated expenses of approximately $30.5 million. The Company contributed the net proceeds from the offering to its Operating Partnership for an equivalent number of Series C Preferred Units. Holders of the Company's Series C Preferred 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 Company pays cumulative cash distributions on the Series C Preferred Stock at a rate of 7.875% per annum of the $25.00 liquidation preference per share. The Series C Preferred Stock is not redeemable by the holders, has no maturity date and is not convertible into any other security of the Company or its affiliates.

On August 23, 2016, the Company issued 1,610,000 shares of its Series B Preferred Stock for net proceeds after all expenses of approximately $37.8 million, which it contributed to the Operating Partnership for an equivalent number of preferred partnership units. Holders of the Company's Series B Preferred 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 Company pays cumulative cash distributions on the Series B Preferred Stock at a rate of 8.00% per annum of the $25.00 liquidation preference per share. The Series B Preferred Stock is not redeemable by the holders, has no maturity date and is not convertible into any other security of the Company or its affiliates.

Preferred Units - The Company is the holder of the Operating Partnership's preferred partnership units, and is entitled to receive distributions when authorized by the general partner of the Operating Partnership out of assets legally available for the payment of distributions.

In October 2017, the Operating Partnership issued 1,300,000 units of 7.875% Series C Preferred Units, for net proceeds after all estimated expenses of approximately $30.5 million.   The Operating Partnership used the net proceeds to redeem in full the Operating Partnership's 7% Notes and for working capital.

On August 23, 2016, the Operating Partnership issued 1,610,000 units, $0.01 par value per unit, of its 8% Series B Cumulative Redeemable Perpetual Preferred Units (the "Series B Preferred Units") for net proceeds after all expenses of approximately $37.8 million.   The Operating Partnership used the net proceeds to redeem in full the Operating Partnership's 8.0% senior unsecured notes and for working capital.

The Operating Partnership pays cumulative cash dividends on the preferred partnership units at a rate of 8.00% per annum of the $25.00 liquidation preference per unit for the Series B Preferred Units and pays cumulative cash dividends on the preferred partnership units at a rate of 7.875% per annum of the $25.00 liquidation preference per unit for the Series C Preferred Units.

For each of the quarters ended June 30, 2018 and 2017, the Operating Partnership has declared and has paid $0.50 per preferred unit for the Series B Preferred Units, respectively, and for the quarters ended June 30, 2018 and 2017, the Operating Partnership has declared and has paid approximately $0.4922 and $0, respectively, per preferred unit for the Series C Preferred Units.

8. Common Stock and Units

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. On December 2, 2016, the Company's board of directors authorized a stock repurchase program under which the Company may purchase up to $10.0 million of its outstanding common stock, par value $0.01 per share, at prevailing prices on the open market or in privately negotiated transactions, at the discretion of management. The Company has and expects to continue to use available working capital to fund purchases under the stock repurchase program and intends to complete the repurchase program prior to December 31, 2018, unless extended by the board of directors. Through December 31, 2017 the Company repurchased 882,820 shares of common stock for approximately $5.9 million and the repurchased shares have been returned to the status of authorized but unissued shares of common stock. The Company did not repurchase any shares under the stock repurchase program during the three and six months ended June 30, 2018. For the three and six months ended June 30, 2017, the ESOP purchased 682,500 shares of the Company's common stock for approximately $4.9 million.

The following is a schedule of issuances, since January 1, 2017, of the Company's common stock and related units of the Operating Partnership:

On February 5, 2018, the Company was issued 17,250 units in the Operating Partnership and awarded 15,000 shares of restricted stock and 2,250 of unrestricted stock to its independent directors.

On January 1, 2018, the Company was issued 25,000 units in the Operating Partnership and awarded 25,000 shares of restricted stock to one of its employees.

On February 15, 2017, the Company was issued 12,000 units in the Operating Partnership and awarded 12,000 shares of restricted stock to its independent directors.

As of June 30, 2018 and December 31, 2017, the Company had 14,121,081 and 14,078,831 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.

Since January 1, 2017, there have been no issuances or redemptions, 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, 2018 and December 31, 2017, the total number of Operating Partnership units outstanding was 15,899,221 and 15,856,971, respectively.

As of June 30, 2018 and December 31, 2017, the total number of outstanding Operating Partnership units not owned by the Company was 1,778,140 and 1,778,140, respectively, with a fair market value of approximately $12.4 million and $11.5 million, respectively, based on the price per share of the common stock on such respective dates.

9. Related Party Transactions

Chesapeake Hospitality. As of June 30, 2018, the members of Chesapeake Hospitality (a company that is majority-owned and controlled by the Company's chairman and chief executive officer, and two former members of the Company's board of directors) owned 1,481,833 shares, approximately 10.5%, of the Company's outstanding common stock as well as 652,326 Operating Partnership units. The following is a summary of the transactions between Chesapeake Hospitality and us:

Accounts Receivable – At June 30, 2018 and December 31, 2017, we were due $170,627 and $113,669, respectively, from Chesapeake Hospitality.

Management Agreements – As of June 30, 2018, all of our wholly-owned hotels (with the exception of the Hyatt Centric Arlington hotel) and the Hyde Resort & Residences operated under various management agreements with Chesapeake Hospitality. On December 15, 2014, we entered into a 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 remained at 2.00% through 2015, increased to 2.25% in 2016 and increased to 2.50% thereafter. The base management fees for the remaining properties in the current portfolio was 2.65% through 2017 and decreased 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.

The Company and Chesapeake Hospitality agreed to substitute the Hyde Resort & Residences for the Crowne Plaza Hampton Marina and there was no termination fee associated with the termination of the Crowne Plaza Hampton Marina management agreement. Each management agreement sets an incentive management fee equal to 10.0% of the amount by which gross operating profit, as defined in the management agreement, for a given year exceeds the budgeted gross operating profit for such year; provided, however, that the incentive management fee payable in respect of any such year shall not exceed 0.25% of the gross revenues of the hotel included in such calculation.

Base management and administrative fees earned by Chesapeake Hospitality for our properties totaled $1,119,177 and $1,089,464 for the three months ended June 30, 2018 and 2017, respectively and $2,216,899 and $2,062,532 for the six months ended June 30, 2018 and 2017, respectively. In addition, estimated incentive management fees of $64,009 and $1,824 were accrued for the three months ended June 30, 2018 and 2017, respectively and $86,406 and $28,117 for the six months ended June 30, 2018 and 2017, 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 $1,407,782 and $1,345,837 for the three months ended June 30, 2018 and 2017, respectively and $2,911,607 and $2,673,778 for the six months ended June 30, 2018 and 2017, respectively.

Workers' Compensation Insurance – Pursuant to our management agreements with Chesapeake Hospitality, we pay the premiums for workers' compensation insurance under a self-insured policy owned by Chesapeake Hospitality or its affiliates, and which covers those employees of Chesapeake Hospitality that work exclusively for the properties managed by Chesapeake Hospitality. For the six months ended June 30, 2018 and 2017, we paid approximately $0.1 million and $0, respectively, in premiums for the portion of the plan covering those employees that work exclusively for our properties under our management agreements with Chesapeake Hospitality.

Sotherly Foundation – During 2015, the Company loaned $180,000 to the Sotherly Foundation, a non-profit organization to benefit wounded American veterans living in communities near our hotels. As of June 30, 2018, and December 31, 2017, the balance of the loan was each $40,000, respectively.

Loan Receivable - Affiliate – As of June 30, 2018 and December 31, 2017, approximately $4.6 million and $4.7 million, respectively, was due to the Operating Partnership for advances to the Company under a loan agreement dated December 29, 2016. The Company used the proceeds to make advances to the ESOP to purchase shares of the Company's common stock.

Others. We employ 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. We also employ Andrew M. Sims Jr., the son of our Chief Executive Officer, as a manager. Compensation for the three months ended June 30, 2018 and 2017 totaled $96,035 and $88,334, respectively, and for the six months ended June 30, 2018 and 2017 totaled approximately $194,577 and $179,642, respectively, for all three individuals.

During the three-month period ending June 30, 2018 and 2017, the Company reimbursed $36,304 and $57,148, respectively, and during the six-month period ending June 30, 2018 and 2017, the Company reimbursed $60,356 and $106,006, respectively, to a partnership controlled by the Chief Executive Officer for business-related air travel pursuant to the Company's travel reimbursement policy.

10. Retirement Plans

401(k) 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 $22,141 and $21,618 for the three months ended June 30, 2018 and 2017, respectively, and $49,039 and $45,856 for the six months ended June 30, 2018 and 2017, respectively.

Employee Stock Ownership Plan - The Company adopted an Employee Stock Ownership Plan in December 2016, effective January 1, 2016. The ESOP is a non-contributory defined contribution plan covering all employees of the Company. The Company sponsors and maintains the ESOP and related trust for the benefit of its eligible employees. The ESOP is a leveraged ESOP, meaning funds are loaned to the ESOP from the Company. The Company entered into a loan agreement with the ESOP on December 29, 2016, pursuant to which the ESOP may borrow up to $5.0 million to purchase shares of the Company's common stock on the open market, which serve as collateral for the loan. Between January 3, 2017 and February 28, 2017, the Company's ESOP purchased 682,500 shares of the Company's common stock of an aggregate cost of $4.9 million.

Shares purchased by the ESOP are held in a suspense account for allocation among participants as contributions are made to the ESOP by the Company. The share allocations will be accounted for at fair value at the date of allocation. As of June 30, 2018, the ESOP had purchased 682,500 shares of the Company's common stock in the open market for approximately $4.9 million, which the ESOP borrowed from the Company pursuant to the loan agreement. A total of 50,891 and 16,984 shares with a fair value of $348,173 and $121,305 were allocated or committed to be released from the suspense account and recognized as compensation cost during the six months ended June 30, 2018 and 2017, respectively. The remaining 631,609 unallocated shares have an approximate fair value of $4.4 million, as of June 30, 2018. At June 30, 2018, the ESOP held a total of 36,315 allocated shares, 14,576 committed-to-be-released shares and 631,609 suspense shares. Dividends on allocated and unallocated shares are used to pay down the ESOP loan from the Operating Partnership. The share allocations are accounted for at fair value on the date of allocation as follows:

	June 30, 2018		December 31, 2017	
	Number of Shares	Fair Value	Number of Shares	Fair Value
Allocated shares	36,315	$ 246,580	9,473	$ 64,320
Committed to be released shares	14,576	101,593	24,359	157,118
Total Allocated and Committed-to-be-Released	50,891	$ 348,173	33,832	$ 221,438
Unallocated shares	631,609	4,402,315	648,668	4,183,908
Total ESOP Shares	682,500	$ 4,750,488	682,500	$ 4,405,346

11. Indirect Hotel Operating Expenses

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

	Three Months Ended June 30, 2018 (unaudited)	Three Months Ended June 30, 2017 (unaudited)	Six Months Ended June 30, 2018 (unaudited)	Six Months Ended June 30, 2017 (unaudited)
Sales and marketing	$ 4,303,516	$ 3,463,272	$ 8,030,938	$ 7,149,327
General and administrative	3,897,618	3,668,424	7,340,076	6,594,556
Repairs and maintenance	1,967,457	1,657,927	3,768,599	3,368,963
Utilities	1,583,655	1,451,410	2,985,633	2,826,307
Property taxes	1,625,503	1,565,806	3,162,877	2,979,200
Management fees, including incentive	1,388,995	1,091,288	2,504,854	2,090,649
Franchise fees	1,261,787	1,134,886	2,185,311	2,173,075
Insurance	733,507	619,023	1,368,176	1,225,459
Information and telecommunications	420,460	397,570	802,065	831,134
Other	457,787	555,656	725,012	571,823
Total indirect hotel operating expenses	**$ 17,640,285**	**$ 15,605,262**	**$ 32,873,541**	**$ 29,810,493**

12. Income Taxes

The components of the income tax provision for the three and six months ended June 30, 2018 and 2017 are as follows:

	Three Months Ended June 30, 2018 (unaudited)	Three Months Ended June 30, 2017 (unaudited)	Six Months Ended June 30, 2018 (unaudited)	Six Months Ended June 30, 2017 (unaudited)
Current:				
Federal	$ —	$ 4,699	$ —	$ 10,184
State	61,347	51,838	107,040	100,240
	61,347	56,537	107,040	110,424
Deferred:				
Federal	997,600	118,061	1,204,619	217,419
State	264,067	21,885	317,310	40,577
	1,261,667	139,946	1,521,929	257,996
	$ 1,323,014	**$ 196,483**	**$ 1,628,969**	**$ 368,420**

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Statutory federal income tax provision (benefit)	$ 901,026	$ 446,175	$ 1,212,339	$ 1,492,659
Effect of non-taxable REIT income (loss)	96,574	(323,416)	(7,720)	(1,265,057)
State income tax provision (benefit)	325,414	73,724	424,350	140,818
	$ 1,323,014	**$ 196,483**	**$ 1,628,969**	**$ 368,420**

As of June 30, 2018 and December 31, 2017, we had a net deferred tax asset of approximately $3.9 million and $5.5 million, respectively, of which, approximately $3.4 million and $4.9 million, respectively, are due to accumulated net operating losses of our TRS Lessee. These loss carryforwards will begin to expire in 2028 if not utilized by such time. As of June 30, 2018 and December 31, 2017, the remainder of the deferred tax asset is attributable to year-to-year timing differences of approximately $0.6 million and $0.6 million, respectively, for accrued, but not deductible, employee performance awards, vacation and sick pay, bad debt allowance and depreciation. At the end of the 2017 fiscal year, there was a one-time loss effect resulting from a change in the federal income tax rate, due to the recently enacted tax reform legislation, informally referred to as the Tax Cuts and Jobs Act, on the net deferred tax assets which resulted in lowering deferred tax assets in the amount of approximately $2.7 million.

We record a valuation allowance to reduce deferred tax assets to an amount that we believe is more likely than not to be realized. Because of expected future taxable income of our TRS Lessee, we have not recorded a valuation allowance to reduce our net deferred tax asset as of June 30, 2018 and December 31, 2017, respectively. We regularly evaluate the likelihood that our TRS Lessee will be able to realize its deferred tax assets and the continuing need for a valuation allowance. At June 30, 2018 and December 31, 2017, we determined, based on all available positive and negative evidence, that it is more-likely-than-not that future taxable income will be available during the carryforward periods to absorb all of the consolidated federal and state net operating loss carryforward of our TRS Lessee. A number of factors played a critical role in this determination, including:

- a demonstrated track record of past profitability and utilization of past NOL carryforwards,
- reasonable forecasts of future taxable income, and
- anticipated changes in the lease rental payments from the TRS Lessee to subsidiaries of the Operating Partnership.

13. Income (Loss) Per Share and Per Unit

Income (Loss) 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 partner 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 (loss). The shares of the Series B Preferred Stock and Series C Preferred Stock are not convertible into or exchangeable for any other property or securities of the Company, except upon the occurrence of a change of control and have been excluded from the diluted earnings per share calculation as there would be no impact on the current controlling stockholders. The 631,609 non-committed, unearned ESOP shares are treated as reducing the number of issued and outstanding common shares and similarly reducing the weighted average number of common shares outstanding. The allocated and committed to be released shares have been included in the weighted average diluted earnings per share calculation, and the amount of compensation for allocated shares is reflected in net income. There are no ESOP units, therefore there is no dilution on the calculation of earnings per unit. The computation of basic and diluted net income per share is presented below.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Numerator				
Net income available to common stockholders for basic and diluted computation	$ 1,352,414	$ 276,926	$ 1,114,071	$ 2,147,942
Denominator				
Weighted average number of common shares outstanding	14,137,929	14,480,551	14,134,594	14,477,568
Weighted average number of Unearned ESOP Shares	(649,403)	(667,383)	(654,065)	(578,658)
Total weighted average number of common shares outstanding for basic computation	13,488,526	13,813,168	13,480,529	13,898,910
Basic net income per share	**$ 0.10**	**$ 0.02**	**$ 0.08**	**$ 0.15**
Weighted average number of common shares outstanding	14,138,878	14,482,418	14,140,205	14,487,017
Weighted average number of Unearned ESOP Shares	(649,403)	(667,383)	(654,065)	(578,658)
Total weighted average number of common shares outstanding for diluted computation	13,489,475	13,815,035	13,486,140	13,908,359
Diluted net income per share	**$ 0.10**	**$ 0.02**	**$ 0.08**	**$ 0.15**

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Numerator				
Net income available to common unitholders for basic computation	$ 1,522,745	$ 310,795	$ 1,254,389	$ 2,411,753
Denominator				
Weighted average number of units outstanding	15,899,221	16,258,691	15,895,885	16,255,708
Basic and diluted net income per unit	**$ 0.10**	**$ 0.02**	**$ 0.08**	**$ 0.15**

14. Subsequent Events

On July 2, 2018, we purchased a portion of the parking lot adjacent to the DoubleTree by Hilton Raleigh Brownstone-University for an aggregate purchase price of $3.5 million.

On July 11, 2018, we paid a quarterly dividend (distribution) of $0.12 per common share (and unit) to those stockholders (and unitholders of the Operating Partnership) of record on June 15, 2018.

On July 16, 2018, we paid a quarterly distribution of $0.50 per share (and unit) of Series B Preferred Stock (and Series B Preferred Units) to holders of the Series B Preferred Stock (and Series B Preferred Units) of record as of June 29, 2018.

On July 16, 2018, we paid a quarterly distribution of $0.4921875 per share (and unit) of Series C Preferred Stock (and Series C Preferred Units) to holders of the Series C Preferred Stock (and Series C Preferred Units) of record as of June 29, 2018.

On July 23, 2018, we authorized payment of a quarterly dividend (distribution) of $0.125 per common share (and unit) to the stockholders (and unitholders of the Operating Partnership) of record as of September 14, 2018. The dividend (distribution) is to be paid on October 11, 2018.

On July 23, 2018, we authorized payment of a quarterly distribution of $0.50 per share (and unit) of Series B Preferred Stock (and Series B Preferred Units) to holders of the Series B Preferred Stock (and Series B Preferred Units) of record as of September 28, 2018. The dividend is to be paid on October 15, 2018.

On July 23, 2018, we authorized payment of a quarterly distribution of $0.4921875 per share (and unit) of Series C Preferred Stock (and Series C Preferred Units) to holders of the Series C Preferred Stock (and Series C Preferred Units) of record as of September 28, 2018. The dividend is to be paid on October 15, 2018.

On July 27, 2018, we entered into a promissory note and other loan documents to secure an $18.3 million mortgage on the DoubleTree by Hilton Raleigh Brownstone-University with MetLife Commercial Mortgage Originator, LLC. The mortgage has an initial principal balance of $18.3 million, with an additional $5.2 million available upon the satisfaction of certain conditions. The mortgage has an initial term of 4 years with a 1-year extension, and bears a floating rate of interest equal to the 1-month LIBOR rate plus 4.00%, with an interest rate cap of 7.25%. The mortgage requires monthly interest-only payments and, following a 12-month lockout, can be prepaid with a penalty during its second year and without penalty thereafter. We used a portion of the proceeds to repay the existing first mortgage on the DoubleTree by Hilton Raleigh Brownstone-University hotel and to pay closing costs, and intend to use the balance of the proceeds for general corporate purposes.

On July 31, 2018, we entered into a second amendment to loan and security agreement; an amended, restated and consolidated mortgage loan note; and other related documents with its existing lender, TD Bank, N.A., to amend the terms of its mortgage loan on the DoubleTree by Hilton Philadelphia Airport hotel. Concurrent with the loan modification, we also entered into a 5-year swap agreement with The Toronto-Dominion Bank. Pursuant to the amended loan documents: (i) the principal balance of the loan was increased from approximately $30.0 million to $42.2 million; (ii) the loan's maturity date was extended to July 31, 2023; (iii) the loan bears a floating interest rate equal to the 1-month LIBOR rate plus 2.27% (the "Loan Rate"); (iv) the loan amortizes on a 30-year schedule with payments of principal and interest beginning immediately; (v) the loan can be prepaid without penalty; and (vi) the loan will no longer be fully guaranteed by the Operating Partnership, but the Operating Partnership has guaranteed certain standard "bad boy" carveouts. Pursuant to the swap agreement: (i) the Loan Rate has been swapped for a fixed interest rate of 5.237%; notional amounts of the swap approximate the declining balance of the loan; and (iii) we are responsible for any potential termination fees associated with early termination of the swap agreement. We used a portion of the proceeds to repay in full the existing Note B to the mortgage loan on our Hyatt Centric Arlington hotel and to pay closing costs associated with the amendment, and will use the balance of the proceeds for general corporate purposes.

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. 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 3,156 rooms and the hotel commercial condominium unit of the Hyde Resort & Residences. The Company owns hotels that operate under well-known brands such as DoubleTree by Hilton, Tapestry Collection by Hilton, Crowne Plaza, Sheraton and Hyatt, as well as independent hotels. As of June 30, 2018, we owned the following hotel properties:

Property	Number of Rooms		Location	Date of Acquisition	Chain/Class Designation
Wholly-owned Hotels					
Crowne Plaza Tampa Westshore	222		Tampa, FL	October 29, 2007	Upscale
The DeSoto	246		Savannah, GA	December 21, 2004	Upper Upscale(1)
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
DoubleTree Resort by Hilton Hollywood Beach	311		Hollywood, FL	August 9, 2007	Upscale
Georgian Terrace	326		Atlanta, GA	March 27, 2014	Upper Upscale(1)
Hotel Ballast Wilmington, Tapestry Collection by Hilton(2)	272		Wilmington, NC	December 21, 2004	Upscale
Hyatt Centric Arlington	318		Arlington, VA	March 1, 2018	Upper Upscale
Sheraton Louisville Riverside	180		Jeffersonville, IN	September 20, 2006	Upper Upscale
The Whitehall	259		Houston, TX	November 13, 2013	Upper Upscale(1)
Hotel Rooms Subtotal	3,156				
Condominium Hotel					
Hyde Resort & Residences	215	(3)	Hollywood, FL	January 30, 2017	Luxury(1)
Total Hotel & Participating Condominium Hotel Rooms	3,371				

(1) Operated as an independent hotel.
(2) On April 2, 2018, the Company rebranded the Hilton Wilmington Riverside to the Hotel Ballast Wilmington, Tapestry Collection by Hilton.
(3) Reflects only those condominium units that were participating in the rental program as of June 30, 2018. At any given time, some portion of the units participating in our rental program may be occupied by the unit owner(s) and unavailable for rental to hotel guests. We sometimes refer to each participating condominium unit as a "room."

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 88.8% 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, neither the Company nor the Operating Partnership can operate our hotels. Therefore, our wholly-owned hotel properties are leased to our TRS Lessees, which are indirect wholly owned subsidiaries of the Operating Partnership. Our TRS Lessees then engage eligible independent hotel management companies to operate the hotels under a management agreement. Our TRS Lessees have engaged Chesapeake Hospitality and Highgate Hotels to manage our 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 reservations expense), 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.

When calculating composite portfolio metrics, we include available rooms at the Hyde Resort & Residences that participate in our rental program and are not reserved for owner-occupancy.

We also use FFO, Adjusted FFO and Hotel EBITDA as measures 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, 2018 and 2017, respectively, for the Company's wholly-owned properties ("actual" portfolio metrics), as well as ten wholly-owned properties in the portfolio that were under the Company's control during the three and six months ended June 30, 2018 and the corresponding periods in 2017 ("same-store" portfolio metrics). Accordingly, the same-store data does not reflect the performance of the Hyatt Centric Arlington which was acquired on March 1, 2018, the Crowne Plaza Hampton Marina which was sold in February 2017, or our interest in the Hyde Resort & Residences which was acquired on January 30, 2017. The composite portfolio metrics represent all of the Company's wholly-owned properties and the participating condominium hotel rooms at the Hyde Resort & Residences during the three and six months ended June 30, 2018 and the corresponding periods in 2017.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Actual Portfolio Metrics				
Occupancy %	77.8%	76.5%	72.9%	73.3%
ADR	$ 158.14	$ 146.32	$ 157.99	$ 147.65
RevPAR	$ 123.02	$ 111.93	$ 115.15	$ 108.20
Same-Store Portfolio Metrics				
Occupancy %	76.5%	76.5%	71.7%	73.8%
ADR	$ 151.19	$ 146.32	$ 153.20	$ 148.02
RevPAR	$ 115.69	$ 111.93	$ 109.80	$ 109.18
Composite Portfolio Metrics				
Occupancy %	75.6%	74.1%	71.2%	72.0%
ADR	$ 162.93	$ 149.39	$ 165.37	$ 149.99
RevPAR	$ 123.17	$ 110.67	$ 117.81	$ 107.93

Comparison of the Three Months Ended June 30, 2018 to the Three Months Ended June 30, 2017

Revenue. Total revenue for the three months ended June 30, 2018 increased approximately $10.9 million, or 26.8%, to approximately $51.6 million compared to total revenue of approximately $40.6 million for the three months ended June 30, 2017. The increase in revenue for the three months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased revenues by approximately $6.4 million. In addition, our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017, has continued to ramp up and accounted for an increase of approximately $1.0 million for the period. There was also a net increase in revenues of approximately $3.5 million for the three month period from our remaining properties: made up of increases in revenues at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Hollywood Beach, Florida; Atlanta, Georgia and Tampa, Florida of approximately $4.3 million; which were offset by a decrease at our Wilmington, North Carolina property impacted by renovation activities, having reduced revenues of approximately $0.5 million; and were further offset by decreases in revenues of approximately $0.3 million at our properties in Raleigh, North Carolina and Jeffersonville, Indiana.

Room revenue increased approximately $6.4 million, or 22.2%, to approximately $35.3 million for the three months ended June 30, 2018 compared to room revenue of approximately $28.9 million for the three months ended June 30, 2017. The increase in room revenue for the three months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased room revenues by approximately $5.5 million. In addition, there was a net increase in room revenues of approximately $1.0 million for the period from the remaining properties: made up of increases in room revenues at our properties in Savannah, Georgia; Raleigh, North Carolina; Laurel, Maryland; Hollywood Beach, Florida; Philadelphia, Pennsylvania; Jacksonville, Florida; Tampa, Florida and Atlanta, Georgia of approximately $1.8 million; which were offset by a decrease at our Wilmington, North Carolina property impacted by renovation activities having reduced room revenues by approximately $0.4 million; and were further offset by a decrease in room revenues of approximately $0.4 million at our property in Jeffersonville, Indiana.

Food and beverage revenues increased approximately $2.5 million, or 29.1%, to approximately $11.1 million for the three months ended June 30, 2018 compared to food and beverage revenues of approximately $8.6 million for the three months ended June 30, 2017. The increase in food and beverage revenues for the three months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased food and beverage revenues by approximately $0.7 million. In addition, there was a net increase in food and beverage revenues of approximately $1.8 million for the period from the remaining properties: made up of increases in food and beverage revenues at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Jeffersonville, Indiana; Tampa, Florida and Atlanta, Georgia of approximately $2.0 million, which were offset by decreases in food and beverage revenues of approximately $0.2 million at our properties in Raleigh, North Carolina and Hollywood Beach, Florida.

Revenue from other operating departments increased approximately $2.0 million, or 63.1%, to approximately $5.1 million for the three months ended June 30, 2018 compared to revenue from other operating departments of approximately $3.1 million for the three months ended June 30, 2017. The increase in revenue from other operating departments for the three months ended June 30, 2018 resulted mainly from the continued ramp up of operations at the Hyde Resort & Residences, accounting for an increase of approximately $1.0 million for the period and from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased other operating departments revenues by approximately $0.3 million. In addition, there was a net increase in other operating departments revenues of approximately $0.7 million for the period from the remaining properties: made up of increases in other operating departments revenues at our properties in Savannah, Georgia; Hollywood Beach, Florida; Jacksonville, Florida; Tampa, Florida and Atlanta, Georgia of approximately $0.9 million; which were offset by a decrease at our Wilmington, North Carolina property impacted by renovation activities, having reduced other operating departments revenues by approximately $0.1 million; and were further offset by a decrease in other operating departments revenues of approximately $0.1 million at our properties in Raleigh, North Carolina; Philadelphia, Pennsylvania; Laurel, Maryland and Jeffersonville, Indiana.

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 $35.2 million for the three months ended June 30, 2018, an increase of approximately $6.0 million, or 20.8%, compared to total hotel operating expenses of approximately $29.1 million for the three months ended June 30, 2017. The increase in hotel operating expenses for the three months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased hotel operating expenses by approximately $4.0 million. In addition, our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017, has continued to ramp up and accounted for an increase of approximately $0.7 million for the period. There was also a net increase in hotel operating expenses of approximately $1.3 million for the period from the remaining properties: made up of increases in hotel operating expenses at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Tampa, Florida Jeffersonville, Indiana and Atlanta, Georgia of approximately $2.0 million; which were offset by a decrease at our Wilmington, North Carolina property impacted by renovation activities, having reduced hotel operating expenses of approximately $0.1 million; and were further offset by decreases in hotel operating expenses of approximately $0.6 million at our properties in Raleigh, North Carolina; Hollywood Beach, Florida and Hampton, Virginia.

Rooms expense for the three months ended June 30, 2018 increased approximately $1.4 million, or 21.2%, to approximately $8.2 million compared to rooms expense for the three months ended June 30, 2017 of approximately $6.7 million. The net increase in rooms expense for the three months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased room expenses by approximately $1.0 million. In addition, there was a net increase in room expenses of approximately $0.4 million for the period from the remaining properties: made up of increases in room expenses at our properties in Savannah, Georgia; Raleigh, North Carolina; Philadelphia, Pennsylvania; Jacksonville, Florida; Hollywood Beach, Florida; Atlanta, Georgia and Tampa, Florida of approximately $0.5 million; which were offset by decreases in room expenses of approximately $0.1 million at our properties in Wilmington, North Carolina; Laurel, Maryland and Jeffersonville, Indiana.

Food and beverage expenses for the three months ended June 30, 2018 increased approximately $1.5 million, or 24.7%, to approximately $7.7 million compared to food and beverage expenses of approximately $6.2 million for the three months ended June 30, 2017. The increase in food and beverage expenses for the three months ended June 30, 2018 resulted from increases of approximately $1.7 million at our properties in Wilmington, North Carolina; Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Tampa, Florida; Houston, Texas; Jeffersonville, Indiana; Atlanta, Georgia and Arlington, Virginia, which were offset by decreases in food and beverage expenses of approximately $0.2 million at our properties in Raleigh, North Carolina and Hollywood Beach, Florida.

Expenses from other operating departments increased approximately $1.1 million, or 169.5%, to approximately $1.7 million for the three months ended June 30, 2018 compared to expenses from other operating departments of approximately $0.6 million for the three months ended June 30, 2017. The increase in expense from other operating departments for the three months ended June 30, 2018 resulted mainly from our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017 and has continued to ramp up and accounted for an increase of approximately $0.8 million for the period.

Indirect expenses at our wholly-owned properties for the three months ended June 30, 2018 increased approximately $2.0 million, or 13.0%, to approximately $17.6 million compared to indirect expenses of approximately $15.6 million for the three months ended June 30, 2017. The increase in indirect expenses for the three months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased indirect costs by approximately $2.5 million.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended June 30, 2018 increased approximately $1.4 million, or 32.8%, to $5.6 million compared to depreciation and amortization of approximately $4.2 million for the three months ended June 30, 2017. The increase was mostly attributable to increases in the depreciation related to our property being renovated in Tampa, Florida, that accounted for increases of approximately $0.3 million for the period and from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased depreciation by approximately $1.1 million. Our remaining properties accounted for the remaining approximately $0.1 million decrease in depreciation and amortization.

Corporate General and Administrative. Corporate general and administrative expenses for the three months ended June 30, 2018 decreased approximately $0.3 million, or 18.1% to approximately $1.5 million compared to corporate general and administrative expenses of approximately $1.8 million for the three months ended June 30, 2017. The decrease in corporate general and administrative expenses was mainly due to reduced professional fees from Sarbanes Oxley testing in the prior period and legal costs associated with Hyde Resort & Residences also in the prior period.

Interest Expense. Interest expense for the three months ended June 30, 2018 increased approximately $1.2 million, or 31.3%, to approximately $5.1 million compared to interest expense of approximately $3.9 million for the three months ended June 30, 2017. The increase in interest expense for the three months ended June 30, 2018, was substantially related to the new mortgage on our property in Arlington, Virginia and deferred financing costs associated with that mortgage, that accounted for an increase of approximately $0.7 million, compared to the three-month period ending June 30, 2017. There was also a net increase of approximately $0.5 million of interest expenses on mortgages for Wilmington, North Carolina; Savannah, Georgia; Philadelphia, Pennsylvania; Jacksonville, Florida; Tampa, Florida and Houston Texas, which was offset by decreases on mortgages for Raleigh, North Carolina; Laurel, Maryland; Hollywood, Florida; and Atlanta, Georgia.

Interest Income. Interest income for the three months ended June 30, 2018 increased $53,211, or 400.2%, to $66,505 compared to interest income of $13,294 for the three months ended June 30, 2017. The increase is due to higher interest-bearing cash and cash equivalents held during the three-month period ending June 30, 2018 compared to the three-month period ending June 30, 2017.

Loss on Early Debt Extinguishment. During the three months ended June 30, 2017 we refinanced a variable rate mortgage loan, we had with Bank of the Ozarks on the DoubleTree by Hilton Jacksonville Riverfront, with a new fixed rate loan from Bank of America. The amount of accumulated un-amortized loan costs of $228,087 was written off during the period ending June 30, 2017.

Unrealized Gain (Loss) on Hedging Activities. As of June 30, 2018, the fair market value of the interest rate cap is $23,741. The unrealized gain on hedging activities during the three months ended June 30, 2018, was $5,798 and during the three months ended June 30, 2017, the unrealized loss on hedging activities was $11,261.

Income Taxes. We had an income tax provision of approximately $1.3 million for the three months ended June 30, 2018 compared to an income tax provision of approximately $0.2 million for the three months ended June 30, 2017. The income tax provision is primarily derived from the operations of our TRS Lessees. Our TRS Lessees realized operating income for each of the three months ended June 30, 2018 and 2017.

Net Income. We realized net income for the three months ended June 30, 2018 of approximately $3.0 million compared to net income of approximately $1.1 million for the three months ended June 30, 2017, as a result of the operating results discussed above.

Comparison of the Six Months Ended June 30, 2018 to the Six Months Ended June 30, 2017

Revenue. Total revenue for the six months ended June 30, 2018 increased approximately $14.0 million, or 17.6%, to approximately $93.3 million compared to total revenue of approximately $79.3 million for the six months ended June 30, 2017. The increase in revenue for the six months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased revenues by approximately $8.6 million. In addition, our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017, has continued to ramp up and accounted for an increase of approximately $2.3 million for the period. There was also a net increase in revenues of approximately $3.4 million for the period from the remaining properties: made up of increases in revenues at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Hollywood Beach, Florida; Tampa, Florida; Houston, Texas and Atlanta, Georgia of approximately $5.1 million; which were offset by a decrease at our property impacted by renovation activities in Wilmington, North Carolina having reduced revenues of approximately $1.0 million; and were further offset by decreases in revenues of approximately $1.0 million at our properties in Raleigh, North Carolina; Hampton, Virginia and Jeffersonville, Indiana.

Room revenue increased approximately $7.3 million, or 13.0%, to approximately $63.6 million for the six months ended June 30, 2018 compared to room revenue of approximately $56.3 million for the six months ended June 30, 2017. The increase in room revenue for the six months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased room revenues by approximately $7.2 million. In addition, there was a net increase in room revenues of approximately $0.1 million for the period from the remaining properties: made up of increases in room revenues at our properties in Savannah, Georgia; Raleigh, North Carolina; Philadelphia, Pennsylvania; Jacksonville, Florida; Tampa, Florida and Atlanta, Georgia of approximately $1.8 million; which were offset by decreases at our properties impacted by renovation activities in Wilmington, North Carolina and Houston, Texas having reduced room revenues of approximately $0.9 million; and were further offset by decreases in room revenues of approximately $0.8 million at our properties in; Laurel, Maryland; Hollywood Beach, Florida; Hampton, Virginia and Jeffersonville, Indiana.

Food and beverage revenues increased approximately $2.5 million, or 14.9%, to approximately $19.4 million for the six months ended June 30, 2018 compared to food and beverage revenues of approximately $16.9 million for the six months ended June 30, 2017. The increase in food and beverage revenues for the six months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased food and beverage revenues by approximately $1.0 million. In addition, there was a net increase in food and beverage revenues of approximately $1.5 million for the period from the remaining properties: made up of increases in food and beverage revenues at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Houston, Texas; Jeffersonville, Indiana; Tampa, Florida and Atlanta, Georgia of approximately $2.1 million; which were offset by decreases in food and beverage revenues of approximately $0.6 million at our properties in Wilmington, North Carolina; Raleigh, North Carolina; Hampton, Virginia and Hollywood Beach, Florida.

Revenue from other operating departments increased approximately $4.1 million, or 66.3%, to approximately $10.2 million for the six months ended June 30, 2018 compared to revenue from other operating departments of approximately $6.1 million for the six months ended June 30, 2017. The increase in revenue from other operating departments for the six months ended June 30, 2018 resulted mainly from the continued ramp up of operations at the Hyde Resort & Residences, accounting for an increase of approximately $2.3 million for the period and from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased other operating departments revenues by approximately $0.3 million. In addition, there was a net increase in other operating departments revenues of approximately $1.5 million for the period from the remaining properties: made up of increases in other operating departments revenues at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Jacksonville, Florida; Hollywood Beach, Florida; Houston, Texas; Tampa, Florida and Atlanta, Georgia of approximately $1.7 million; which were offset by decreases in other operating departments revenues of approximately $0.2 million at our properties in Wilmington, North Carolina; Raleigh, North Carolina; Laurel, Maryland; Jeffersonville, Indiana and Hampton, Virginia.

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 $65.0 million for the six months ended June 30, 2018, an increase of approximately $8.7 million, or 15.4%, compared to total hotel operating expenses of approximately $56.3 million for the six months ended June 30, 2017. The increase in hotel operating expenses for the six months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased hotel operating expenses by approximately $5.4 million. In addition, our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017, has continued to ramp up and accounted for an increase of approximately $1.5 million for the period. In addition, there was a net increase in hotel operating expenses of approximately $1.8 million for the period from our remaining properties; made up of increases in hotel operating expenses at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Jeffersonville, Indiana and Tampa, Florida and Houston, Texas and Atlanta, Georgia of approximately $2.9 million; which were offset by a decrease for our property impacted by renovation activities in Wilmington, North Carolina having reduced hotel operating expenses of approximately $0.2 million; and were further offset by decreases in hotel operating expenses of approximately $0.9 million at our properties in Raleigh, North Carolina; Hampton, Virginia and Hollywood Beach, Florida.

Rooms expense for the six months ended June 30, 2018 increased approximately $1.5 million, or 10.8%, to approximately $14.9 million compared to rooms expense for the six months ended June 30, 2017 of approximately $13.4 million. The net increase in rooms expense for the six months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased room expenses by approximately $1.3 million. In addition, there was a net increase in room expenses of approximately $0.2 million for the six-month period, from the remaining properties.

Food and beverage expenses for the six months ended June 30, 2018 increased approximately $2.2 million, or 18.4%, to approximately $14.1 million compared to food and beverage expenses of approximately $11.9 million for the six months ended June 30, 2017. The increase in food and beverage expenses for the six months ended June 30, 2018 resulted from increases of approximately $1.6 million at our properties in Wilmington, North Carolina; Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Jeffersonville, Indiana; Tampa, Florida; Houston, Texas; Atlanta, Georgia and Arlington, Virginia, which was offset by decreases in food and beverage expenses of approximately $0.3 million at our properties in Raleigh, North Carolina and Hollywood Beach, Florida;.

Expenses from other operating departments increased approximately $2.0 million, or 162.3%, to approximately $3.2 million for the six months ended June 30, 2018 compared to expenses from other operating departments of approximately $1.2 million for the six months ended June 30, 2017. The increase in expense from other operating departments for the six months ended June 30, 2018 resulted mainly from our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017 and has continued to ramp up and accounted for an increase of approximately $1.7 million for the period.

Indirect expenses at our wholly-owned properties for the six months ended June 30, 2018 increased approximately $3.1 million, or 10.3%, to approximately $32.9 million compared to indirect expenses of approximately $29.8 million for the six months ended June 30, 2017. The increase in indirect expenses for the six months ended June 30, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased indirect costs by approximately $3.3 million.

Depreciation and Amortization. Depreciation and amortization expense for the six months ended June 30, 2018 increased approximately $3.0 million, or 35.7%, to $11.2 million compared to depreciation and amortization of approximately $8.3 million for the six months ended June 30, 2017. The increase was mostly attributable to increases in the depreciation related to our properties being renovated in Wilmington, North Carolina and Tampa, Florida, that accounted for increases of approximately $1.5 million for the period and from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased depreciation by approximately $1.3 million.

Corporate General and Administrative. Corporate general and administrative expenses for the six months ended June 30, 2018 decreased approximately $0.5 million, or 14.0% to approximately $3.0 million compared to corporate general and administrative expenses of approximately $3.5 million for the six months ended June 30, 2017. The decrease in corporate general and administrative expenses was mainly due to reduced professional fees from Sarbanes Oxley testing in the prior period and legal costs associated with Hyde Resort & Residences also in the prior period.

Interest Expense. Interest expense for the six months ended June 30, 2018 increased approximately $1.6 million, or 20.5%, to approximately $9.3 million compared to interest expense of approximately $7.7 million for the six months ended June 30, 2017. The increase in interest expense for the six months ended June 30, 2018, was substantially related to the new mortgage on our property in Arlington, Virginia and deferred financing costs associated with that mortgage, that accounted for an increase of approximately $0.9 million, compared to the six-month period ending June 30, 2017. There was also a net increase of approximately $0.9 million of interest expenses with increases on mortgages for Wilmington, North Carolina; Savannah, Georgia; Philadelphia, Pennsylvania; Jacksonville, Florida; Tampa, Florida and Houston Texas, which was offset by decreases on mortgages for Raleigh, North Carolina; Laurel, Maryland; Hollywood, Florida; and Atlanta, Georgia. In addition, there was a reduction in unsecured note interest by approximately $0.2 million compared to the same prior year period.

Interest Income. Interest income for the six months ended June 30, 2018 increased $75,284, or 103.2%, to $148,209 compared to interest income of $72,925 for the six months ended June 30, 2017. The increase is due to higher interest-bearing cash and cash equivalents held during the six-month period ending June 30, 2018 compared to the six-month period ending June 30, 2017.

Loss on Early Debt Extinguishment. During the six months ended June 30, 2017 we refinanced a variable rate mortgage loan, we had with Bank of the Ozarks on the DoubleTree by Hilton Jacksonville Riverfront, with a new fixed rate loan from Bank of America. The amount of accumulated un-amortized loan costs of $228,087 was written off during the period ending June 30, 2017.

Gain on Involuntary Conversion of Assets. Gain on involuntary conversion of assets for the six months ended June 30, 2018 decreased approximately $0.1 million to approximately $0.9 million compared to gain on involuntary conversion of assets of approximately $1.0 million for the six months ended June 30, 2017. During October 2017, we had electrical damage to The Whitehall property and we had a one-time involuntary conversion in the amount of approximately $0.9 million. During October 2016, Hurricane Matthew damaged real and personal property at our Crowne Plaza Hampton Marina and Hilton Savannah DeSoto properties and resulted in a one-time involuntary conversion in the amount of approximately $1.0 million.

Unrealized Gain (Loss) on Hedging Activities. As of June 30, 2018, the fair market value of the interest rate cap is $23,741. The unrealized gain on hedging activities during the six months ended June 30, 2018, was $18,528 and during the six months ended June 30, 2017, the unrealized loss on hedging activities was $27,206.

Gain on Sale of Assets. Gain on sale of assets for the six months ended June 30, 2018 decreased approximately $0.1 million to $0 compared to a gain on sale of assets of approximately $0.1 million for the six months ended June 30, 2017. During the six-month period ending June 30, 2017, we sold the Hampton, Virginia property realizing a gain on sale of assets of approximately $0.1 million.

Income Taxes. We had an income tax provision of approximately $1.6 million for the six months ended June 30, 2018 compared to an income tax provision of approximately $0.4 million for the six months ended June 30, 2017. The income tax provision is primarily derived from the operations of our TRS Lessees. Our TRS Lessees realized operating income for each of the six months ended June 30, 2018 and 2017.

Net Income. We realized net income for the six months ended June 30, 2018 of approximately $4.1 million compared to net income of approximately $4.0 million for the six months ended June 30, 2017 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 hedging instruments or warrant derivative, loan impairment losses, losses on early extinguishment of debt, aborted offering costs, loan modification fees, franchise termination costs, 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 than FFO 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, 2018 and 2017:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income available to common stockholders	**$ 1,352,414**	**$ 276,926**	**$ 1,114,071**	**$ 2,147,942**
Add: Net income attributable to noncontrolling interest	170,331	33,869	140,318	263,811
Depreciation and amortization	5,601,940	4,219,712	11,236,130	8,280,809
Gain on involuntary conversion of assets	(27,824)	—	(898,565)	(1,041,815)
Loss (gain) on disposal and/or sale of assets	—	51,507	3,739	(48,900)
FFO	**$ 7,096,861**	**$ 4,582,014**	**$ 11,595,693**	**$ 9,601,847**
Decrease in deferred income taxes	1,261,667	139,946	1,521,929	257,996
Loss on early extinguishment of debt	—	228,087	—	228,087
Unrealized (gain) loss on hedging activities	(5,798)	11,261	(18,528)	27,206
Adjusted FFO available to common stockholders	**$ 8,352,730**	**$ 4,961,308**	**$ 13,099,094**	**$ 10,115,136**
Weighted average number of shares outstanding, basic	13,488,526	13,813,168	13,480,529	13,898,910
Weighted average number of non-controlling units	1,778,140	1,778,140	1,778,140	1,778,140
Weighted average number of shares and units outstanding, basic	15,266,666	15,591,308	15,258,669	15,677,050
FFO per share and unit	$ 0.46	$ 0.29	$ 0.76	$ 0.61
Adjusted FFO per share and unit	$ 0.55	$ 0.32	$ 0.86	$ 0.65

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) distributions to preferred stockholders 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, 2018 and 2017:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income available to common stockholders	**$ 1,352,414**	**$ 276,926**	**$ 1,114,071**	**$ 2,147,942**
Add: Net income attributable to noncontrolling interest	170,331	33,869	140,318	263,811
Interest expense	5,087,482	3,874,076	9,264,501	7,687,793
Interest income	(66,505)	(13,294)	(148,209)	(72,925)
Income tax provision	1,323,014	196,483	1,628,969	368,420
Depreciation and amortization	5,601,940	4,219,712	11,236,130	8,280,809
Loss on early extinguishment of debt	—	228,087	—	228,087
Loss (gain) on disposal and/or sale of assets	—	51,507	3,739	(48,900)
Gain on involuntary conversion of assets	(27,824)	—	(898,565)	(1,041,815)
Distributions to preferred stockholders	1,444,844	805,000	2,889,688	1,610,000
EBITDA	**14,885,696**	**9,672,366**	**25,230,642**	**19,423,222**
Corporate general and administrative	1,503,549	1,834,930	3,049,849	3,547,012
Unrealized (gain) loss on hedging activities	(5,798)	11,261	(18,528)	27,206
Hotel EBITDA	**$ 16,383,447**	**$ 11,518,557**	**$ 28,261,963**	**$ 22,997,440**

Sources and Uses of Cash

Operating Activities. Our principal source of cash to meet our operating requirements, including distributions to unitholders of the Operating Partnership and stockholders of our preferred and common stock, as well as debt service (excluding debt maturities), is through the operations of our hotels. Cash flow provided by operating activities for the six months ended June 30, 2018 was approximately $16.2 million. We had a net increase in cash provided by operating activities for the six months ended June 30, 2018 of approximately $4.1 million, compared to the six months ended June 30, 2017. 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, 2018, we used approximately $79.7 million to acquire our interest in the Hyatt Centric Arlington, $10.6 million on capital expenditures, of which, approximately $3.2 million related to the routine replacement of furniture, fixtures and equipment and $7.4 million related to renovation of our hotels in Wilmington, North Carolina and Tampa, Florida. The Operating Partnership received a payment on its loan to the Company in the amount of $94,908. We also received approximately $0.2 million for proceeds from insurance conversions.

Financing Activities. During the six months ended June 30, 2018, we received approximately $57.6 million for net mortgage proceeds, unsecured debt proceeds of $25.0 million before expenses, paid dividend and distribution payments of approximately $6.2 million for the Company and approximately $6.4 million for the Operating Partnership and made payments for deferred financing costs of approximately $2.2 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. In addition, during fiscal years 2018 and 2019 we expect total renovation capital expenditures of approximately $13.4 million related to our properties in Wilmington, North Carolina and Tampa, Florida. Below is a description of capital expenditures by property:

- At the Company's hotel in Wilmington, North Carolina, we completed a $10.0 million renovation of the guestrooms and public space at our hotel in March 2018 and rebranded the hotel from the Hilton Wilmington Riverside to the Hotel Ballast Wilmington, Tapestry Collection by Hilton, on April 2, 2018.

- At the Company's hotel in Tampa, Florida, renovations of the guestrooms and public spaces totaling an estimated $11.0 million has begun, in anticipation of a planned March 2019 conversion to Hotel Alba, which we expect to become a member of the Tapestry Collection by Hilton. As of June 30, 2018, the Company had incurred costs totaling approximately $3.0 million toward this renovation.

Given our plan to complete the renovation activities at our property in Tampa, Florida prior to a franchise re-licensing in March 2019, 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. 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 3.50% of gross revenues in 2018.

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 DeSoto, the Hotel Ballast Wilmington, Tapestry Collection by Hilton, the DoubleTree by Hilton Raleigh Brownstone-University, The Whitehall, the DoubleTree by Hilton Jacksonville Riverfront, the DoubleTree Resort by Hilton Hollywood Beach 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, 2018, we had total cash of approximately $33.7 million, of which approximately $28.4 million was in cash and cash equivalents and approximately $5.3 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).

Other than monthly mortgage loan principal payments, we do not have any upcoming debt obligations maturing in 2018. On July 27, 2018, we refinanced the approximate $14.4 million mortgage on our DoubleTree by Hilton Raleigh Brownstone University with a new $18.3 million mortgage maturing in 2022. On July 31, 2018, we amended the approximate $30.0 million mortgage on our DoubleTree by Hilton Philadelphia Airport with the existing lender to increase the principal balance to $42.2 million and extend the maturity to 2023. On August 2, 2018, we repaid in full Note B to the Hyatt Centric Arlington mortgage. Other than monthly mortgage loan principal payments, our only mortgage debt obligation maturing in 2019 is the $18.3 million mortgage on the Crowne Plaza Tampa Westshore.

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. 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 includes the repayment of the 7.25% Notes and the retirement of maturing mortgage debt in 2018 and 2019, 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, the selective disposition of non-core assets, and cash on hand. From time to time and subject to market conditions, we may also seek to refinance mortgage debt prior to maturity where appropriate. 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, 2018, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans. As previously disclosed, we reduced Note B to the Hyatt Centric Arlington mortgage loan by approximately $4.0 million on May 10, 2018 to remain in compliance with the loan covenants.

Unsecured Notes

The indenture for the 7.25% Notes, issued on February 12, 2018, 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 indenture, 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 indenture, 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, each as defined in the indenture, 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, 2018.

		June 30, 2018
Ratio of Stabilized Consolidated Income Available for Debt Service to Stabilized Consolidated Interest Expense		
Net Income[(1)]	**$**	**151,813**
Interest expense[(1)]		17,304,336
Loss on early debt extinguishment		950,261
Unrealized (gain)loss on hedging activities		(17,350)
Gain on involuntary conversion		(2,099,626)
Loss (gain) on sale of assets		(27,333)
Income tax benefit[(1)]		2,998,353
Loss on disposal of assts		1,500,078
Depreciation and amortization[(1)]		19,954,940
Corporate general and administrative expenses[(1)]		5,838,763
Consolidated income available for debt service[(1)]		46,554,235
Less: income of non-stabilized assets[(1)]		(18,031,425)
Stabilized Consolidated Income Available for Debt Service[(1)]	**$**	**28,522,810**
Interest expense[(1) (2)]	$	18,254,596
Amortization of issuance costs[(1)]		(1,179,642)
Consolidated interest expense[(1)]		17,074,954
Less: interest expense of non-stabilized assets[(1)]		(6,635,009)
Stabilized Consolidated Interest Expense[(1)]	**$**	**10,439,945**
Ratio of Stabilized Consolidated Income Available for Debt Service to Stabilized Consolidated Interest Expense		**2.73**
Threshold Ratio Minimum		**1.50**
Ratio of Debt to Adjusted Total Asset Value:		
Mortgage loans	$	356,644,723
Unsecured notes		25,000,000
Total debt	**$**	**381,644,723**
Stabilized Consolidated Income Available for Debt Service[(1)]	$	28,522,810
Capitalization rate		7.5%
		380,304,139
Non-stabilized assets		279,700,000
Total cash		33,736,839
Adjusted Total Asset Value	**$**	**693,740,978**
Ratio of Debt to Adjusted Total Asset Value		**0.55**
Threshold Ratio Maximum		**0.65**

(1) Represents the four preceding calendar quarters.

(2) As permitted by the indenture, The DeSoto, the Hotel Ballast Wilmington, Tapestry Collection by Hilton, the DoubleTree Resort Hollywood Beach and the Hyatt Centric Arlington hotels, for the period ended June 30, 2018, 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 2018, we increased the quarterly dividend (distribution) to $0.115 per common share (and unit).

In April 2018, we increased the quarterly dividend (distribution) to $0.12 per common share (and unit).

In July 2018, we increased the quarterly dividend (distribution) to $0.125 per common share (and unit).

Off-Balance Sheet Arrangements

None.

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 typically 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, which were acquired from third parties, 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 permanent 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 the 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, 2018.

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. Because of expected future taxable income of our TRS Lessee, we have not recorded a valuation allowance to reduce our net deferred tax asset as of June 30, 2018 and December 31, 2017, respectively. We regularly evaluate the likelihood that our TRS Lessee will be able to realize its deferred tax assets and the continuing need for a valuation allowance. At each of June 30, 2018 and December 31, 2017, we determined, based on all available positive and negative evidence, that it is more-likely-than-not that future taxable income will be available during the carryforward periods to absorb all of the consolidated federal and state net operating loss carryforward. A number of factors played a critical role in this determination, including:

- a demonstrated track record of past profitability and utilization of past NOL carryforwards,
- reasonable forecasts of future taxable income, and
- anticipated changes in the lease rental payments from the TRS Lessee to subsidiaries of the Operating Partnership.

Should unanticipated adverse financial trends occur, or other negative evidence develop, a valuation allowance may be necessary in the future against some or all of our deferred tax assets.

Recent Accounting Pronouncements

For a summary of recently adopted and newly issued accounting pronouncements, please refer to the *New 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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. 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 and new supply of hotel rooms, increases in wages, energy costs and other operating costs;
- risks associated with adverse weather conditions, including hurricanes;
- the availability and terms of financing and capital and the general volatility of the securities markets;
- the Company's intent to repurchase shares from time to time;
- 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, 2018, we had approximately $266.0 million of fixed-rate debt and approximately $115.7 million of variable-rate debt. The weighted-average interest rate on the fixed-rate debt was 4.99%. 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 Crowne Plaza Tampa Westshore, DoubleTree by Hilton Philadelphia Airport, The Whitehall and the mortgage on Hyatt Centric Arlington remains at approximately $115.7 million, the balance at June 30, 2018, the impact on our annual interest incurred and cash flows of a one percent increase in 1-month LIBOR would be approximately $1.2 million.

As of December 31, 2017, we had approximately $238.3 million of fixed-rate debt and approximately $60.7 million of variable rate debt. The weighted-average interest rate on the fixed-rate debt was 4.61%. 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 Crowne Plaza Tampa Westshore, DoubleTree by Hilton Philadelphia Airport and the mortgage on The Whitehall remains at approximately $60.7 million, the balance at December 31, 2017, the impact on our annual interest incurred and cash flows of a one percent increase in 1-month LIBOR would be approximately $0.6 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, 2018. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2018, 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 within 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.

Sotherly Hotels LP

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, 2018. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2018, 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 within 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***

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, 2017 and our quarterly report on Form 10-Q for the quarterly period ended March 31, 2018.

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:

Exhibit Number	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 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 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 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 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.
32.2	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 for the Company.
32.3	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 Operating Partnership.
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 for the Operating Partnership.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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* Denotes management contract and/or compensatory plan/arrangement.

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.

SOTHERLY HOTELS INC.

Date: August 9, 2018

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.

SOTHERLY HOTELS LP

By: SOTHERLY HOTELS INC.
Its General Partner

Date: August 9, 2018

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

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

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Section 2: 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 9, 2018

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

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Section 3: 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 9, 2018

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

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Section 4: 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 9, 2018

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 5: EX-31.4 (EX-31.4)

EXHIBIT 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 9, 2018

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 6: EX-32.1 (EX-32.1)

EXHIBIT 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

In connection with the Quarterly Report of Sotherly Hotels Inc. (the "Corporation") on Form 10-Q for the period ending June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew M. Sims, Chief Executive Officer of the Corporation, 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 Corporation.

Date: August 9, 2018

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

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Section 7: EX-32.2 (EX-32.2)

EXHIBIT 32.2

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 Inc. (the "Corporation") on Form 10-Q for the period ending June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony E. Domalski, Chief Financial Officer of the Corporation, 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 Corporation.

Date: August 9, 2018

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

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Section 8: EX-32.3 (EX-32.3)

EXHIBIT 32.3

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

In connection with the Quarterly Report of Sotherly Hotels LP (the "Operating Partnership") on Form 10-Q for the period ending June 30, 2018 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 9, 2018

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 9: 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, 2018 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 9, 2018

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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