

REFINITIV

# DELTA REPORT

## 10-Q

SOHOM - SOTHERLY HOTELS INC.

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1288
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 CHANGES	477
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 DELETIONS	607
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 ADDITIONS	204
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended **June** **September** 30, 2023

OR

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

For the transition period from to .

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**SOTHERLY HOTELS INC.**

(Exact name of registrant as specified in its charter)

**MARYLAND**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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**001-32379**  
(Commission  
File Number)

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

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**SOTHERLY HOTELS LP**

(Exact name of registrant as specified in its charter)

**DELAWARE**

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**001-36091**

**20-1965427**



(State or Other Jurisdiction of  
Incorporation or Organization)

(Commission  
File Number)

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

**306 South Henry Street, Suite 100  
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 every Interactive Data File required to be submitted 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 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.

**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 10, 2023** **November 10, 2023**, there were **19,310,803** **19,696,805** shares of Sotherly Hotels Inc.'s common stock issued and outstanding.

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	SOHO	The NASDAQ Stock Market LLC
8.0% Series B Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value	SOHOB	The NASDAQ Stock Market LLC
7.875% Series C Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value	SOHOO	The NASDAQ Stock Market LLC
8.25% Series D Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value	SOHON	The NASDAQ Stock Market LLC

## 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 common partnership interest as “partnership units,” and the Operating Partnership’s preferred interest as the “preferred units.” 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, 2023** **September 30, 2023** 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 of time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

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

- Consolidated Financial Statements;
- the following Notes to Consolidated Financial Statements:
  - Note 6 – Preferred Stock and Units;
  - Note 7 – Common Stock and Units;
  - Note 12 – Income (Loss) Per Share and Per Unit; and
- Part I, Item 4 - Controls and Procedures; and
- Part II, 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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Item 1. Consolidated Financial Statements

**SOTHERLY HOTELS INC.**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2023 <u>(unaudited)</u>	December 31, 2022	September 30, 2023 <u>(unaudited)</u>	December 31, 2022
<b>ASSETS</b>				
	360,056	365,070,	357,027,4	365,070,
Investment in hotel properties, net	\$ ,196	\$ 725	\$ 22	\$ 725
	24,226,	21,918,6	19,198,62	21,918,6
Cash and cash equivalents	602	80	5	80
	7,962,8	5,422,95	10,205,94	5,422,95
Restricted cash	07	0	7	0
	5,247,3	5,844,90		5,844,90
Accounts receivable, net	24	4	4,776,701	4
Prepaid expenses, inventory and other assets	10,520,	8,311,86		8,311,86
	047	2	9,553,741	2
	<u>408,012</u>	<u>406,569,</u>	<u>400,762,4</u>	<u>406,569,</u>
<b>TOTAL ASSETS</b>	<u><u>\$ ,976</u></u>	<u><u>\$ 121</u></u>	<u><u>\$ 36</u></u>	<u><u>\$ 121</u></u>
<b>LIABILITIES</b>				
	319,289	320,482,	317,633,7	320,482,
Mortgage loans, net	\$ ,449	\$ 103	\$ 43	\$ 103
	1,929,0	2,545,97		2,545,97
Unsecured notes	73	5	1,722,700	5
	25,516,	25,704,8	25,957,51	25,704,8
Accounts payable and accrued liabilities	483	35	8	35
	2,703,2	2,233,01		2,233,01
Advance deposits	65	3	2,872,457	3
	4,082,4	4,082,47		4,082,47
Dividends and distributions payable	72	2	2,088,160	2

	353,520	355,048,	350,274,5	355,048,
<b>TOTAL LIABILITIES</b>	<b>\$ ,742</b>	<b>\$ 398</b>	<b>\$ 78</b>	<b>\$ 398</b>
Commitments and contingencies (See Note 5)	—	—	—	—
<b>EQUITY</b>				
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, 1,464,100 and 1,464,100 shares issued and outstanding; aggregate liquidation preference each \$44,655,050, at June 30, 2023 and December 31, 2022, respectively.	14,641	14,641		
7.875% Series C cumulative redeemable perpetual preferred stock, 1,346,110 and 1,346,110 shares issued and outstanding; aggregate liquidation preference each \$40,940,681, at June 30, 2023 and December 31, 2022, respectively.	13,461	13,461		
8.25% Series D cumulative redeemable perpetual preferred stock, 1,163,100 and 1,163,100 shares issued and outstanding; aggregate liquidation preference each \$35,674,458, at June 30, 2023 and December 31, 2022, respectively.	11,631	11,631		



Common stock, par value \$0.01,  
69,000,000 shares authorized,  
19,310,803  
shares issued and outstanding at June  
30, 2023 and 18,951,525  
shares issued and outstanding at  
December 31, 2022.

193,108

189,515

8.0% Series B cumulative redeemable  
perpetual preferred stock,  
1,464,100 and 1,464,100 shares  
issued and outstanding; aggregate  
liquidation  
preference each \$44,655,050, at  
September 30, 2023 and  
December 31, 2022, respectively.

14,641

14,641

7.875% Series C cumulative redeemable  
perpetual preferred stock,  
1,346,110 and 1,346,110 shares  
issued and outstanding; aggregate  
liquidation  
preference each \$40,940,681, at  
September 30, 2023 and  
December 31, 2022, respectively.

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8.25% Series D cumulative redeemable  
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1,163,100 and 1,163,100 shares  
issued and outstanding; aggregate  
liquidation  
preference each \$35,674,458, at  
September 30, 2023 and  
December 31, 2022, respectively.

11,631

11,631

Common stock, par value \$0.01, 69,000,000 shares authorized, 19,696,805 shares issued and outstanding at September 30, 2023 and 18,951,525 shares issued and outstanding at December 31, 2022.			196,968	189,515
Additional paid-in capital	176,258 ,261	175,611, 370	176,304,1 84	175,611, 370
Unearned ESOP shares	(2,509,8 67)	(2,601,13 4)	(2,464,23 1)	(2,601,13 4)
Distributions in excess of retained earnings	(118,43 4,462)	(120,985, 183)	(122,338, 042)	(120,985, 183)
Total Sotherly Hotels Inc. stockholders' equity	55,546, 773	52,254,3 01	51,738,61 2	52,254,3 01
Noncontrolling interest	(1,054,5 39)	(733,578) (733,578)	(1,250,75 4)	(733,578) (733,578)
<b>TOTAL EQUITY</b>	<b>54,492, 234</b>	<b>51,520,7 23</b>	<b>50,487,85 8</b>	<b>51,520,7 23</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 408,012 ,976</b>	<b>\$ 406,569, 121</b>	<b>\$ 400,762,4 36</b>	<b>\$ 406,569, 121</b>

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

**SOTHERLY HOTELS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
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	June 30, 2023 (unaudited) )	June 30, 2022 (unaudited) )	June 30, 2023 (unaudited) d)	June 30, 2022 (unaudited) d)	September 30, 2023 (unaudited) )	September 30, 2022 (unaudited) )	September 30, 2023 (unaudited) d)	September 30, 2022 (unaudited) d)
<b>REVENUE</b>								
			61,	57,				
	33,2	32,5	655	398	26,2	26,1	87,9	83,5
Rooms department	53,5	45,5	,21	,97	60,5	10,0	15,7	09,0
	\$ 23	\$ 88	\$ 1	\$ 3	\$ 86	\$ 30	\$ 97	\$ 03
			18,	13,				
Food and beverage department	9,50	7,71	249	330	7,52	6,81	25,7	20,1
	0,97	2,31	,70	,04	2,75	6,32	72,4	46,3
	4	0	0	6	3	7	53	73
			12,	14,				
Other operating departments	6,26	6,91	603	793	5,39	6,28	18,0	21,0
	2,83	2,36	,69	,84	8,02	6,33	01,7	80,1
	6	1	9	2	4	8	24	81
			92,	85,				
<b>Total</b>	<b>49,0</b>	<b>47,1</b>	<b>508</b>	<b>522</b>	<b>39,1</b>	<b>39,2</b>	<b>131,</b>	<b>124,</b>
<b>revenue</b>	<b>17,3</b>	<b>70,2</b>	<b>,61</b>	<b>,86</b>	<b>81,3</b>	<b>12,6</b>	<b>689,</b>	<b>735,</b>
	<b>33</b>	<b>59</b>	<b>0</b>	<b>1</b>	<b>63</b>	<b>95</b>	<b>974</b>	<b>557</b>
<b>EXPENSES</b>								
Hotel operating expenses								
			13,	13,				
	7,01	7,20	429	155	6,43	6,53	19,8	19,6
Rooms department	6,33	5,58	,43	,34	7,08	9,30	66,5	94,6
	9	5	4	3	1	6	15	49
			12,					
Food and beverage department	6,39	5,25	326	9,1	5,60	4,73	17,9	13,8
	0,86	6,16	,42	36,	7,35	1,78	33,7	68,5
	7	4	7	781	0	7	77	67
	2,30	2,59	4,6	5,0	2,19	2,38	6,81	7,47
Other operating departments	5,75	9,37	21,	83,	8,05	6,90	9,66	0,38
	5	2	603	479	8	1	1	0

			35,	33,				
	18,4	17,3	209	400	17,3	15,7	52,5	49,1
	62,3	37,5	,91	,94	72,1	31,9	82,0	32,8
Indirect	36	85	3	6	67	38	80	84
			65,	60,				
<b>Total hotel</b>	<b>34,1</b>	<b>32,3</b>	<b>587</b>	<b>776</b>	<b>31,6</b>	<b>29,3</b>	<b>97,2</b>	<b>90,1</b>
<b>operating</b>	<b>75,2</b>	<b>98,7</b>	<b>,37</b>	<b>,54</b>	<b>14,6</b>	<b>89,9</b>	<b>02,0</b>	<b>66,4</b>
<b>expenses</b>	<b>97</b>	<b>06</b>	<b>7</b>	<b>9</b>	<b>56</b>	<b>32</b>	<b>33</b>	<b>80</b>
	4,76	4,61	9,3	9,1	4,71	4,70	14,0	13,8
Depreciation and	3,19	9,74	41,	84,	5,01	4,80	56,5	89,6
amortization	3	3	504	815	9	6	23	21
				490				
Loss on disposal		520,		,61				
of assets	—	156	—	3				
(Gain) loss on					(4,7	1,21	(4,7	491,
disposal of assets					00)	5	00)	828
Corporate	1,78	1,43	3,7	2,9	1,68	1,82	5,45	4,77
general and	9,04	2,36	69,	46,	8,53	7,74	8,34	4,13
administrative	1	6	805	393	5	6	0	9
			78,	73,				
<b>Total</b>	<b>40,7</b>	<b>38,9</b>	<b>698</b>	<b>398</b>	<b>38,0</b>	<b>35,9</b>	<b>116,</b>	<b>109,</b>
<b>operating</b>	<b>27,5</b>	<b>70,9</b>	<b>,68</b>	<b>,37</b>	<b>13,5</b>	<b>23,6</b>	<b>712,</b>	<b>322,</b>
<b>expenses</b>	<b>31</b>	<b>71</b>	<b>6</b>	<b>0</b>	<b>10</b>	<b>99</b>	<b>196</b>	<b>068</b>
			13,	12,				
<b>NET</b>	<b>8,28</b>	<b>8,19</b>	<b>809</b>	<b>124</b>	<b>1,16</b>	<b>3,28</b>	<b>14,9</b>	<b>15,4</b>
<b>OPERATING</b>	<b>9,80</b>	<b>9,28</b>	<b>,92</b>	<b>,49</b>	<b>7,85</b>	<b>8,99</b>	<b>77,7</b>	<b>13,4</b>
<b>INCOME</b>	<b>2</b>	<b>8</b>	<b>4</b>	<b>1</b>	<b>3</b>	<b>6</b>	<b>78</b>	<b>89</b>
<b>Other income</b>								
<b>(expense)</b>								
				(11,				
	(4,2	(5,3	(8,4	056	(4,4	(4,2	(12,	(15,
Interest	88,3	42,9	01,	,14	66,6	24,3	868,	280,
expense	67)	40)	964)	4)	30)	87)	595)	531)
			369					
	222,	27,4	,43	51,	222,	40,5	592,	92,5
Interest income	772	86	7	934	878	81	315	15

Loss on early extinguishment of debt	—	(5,944,881)	—	(5,944,881)	—	—	—	(5,944,881)
Unrealized gain (loss) on hedging activities	286,831	572,497	(15,5632)	1,534,760	103,946	1,457,552	(51,686)	2,992,311
PPP loan forgiveness	—	—	275,494	—	—	—	275,494	—
Gain on sale of hotel properties	—	30,053,977	—	30,053,977	—	—	—	30,053,977
Gain on involuntary conversion of assets	763,169	51,547	779,645	51,547	551,729	1,422,295	1,331,374	1,473,842
<b>Net income before income taxes</b>	<b>5,277</b>	<b>27,674</b>	<b>6,690</b>	<b>815,447</b>				
Income tax provision	(16,537)	(11,615)	(31,719)	(21,269)				
	<b>5,257</b>	<b>27,658</b>	<b>6,671</b>	<b>794,178</b>				
<b>Net income</b>	<b>0</b>	<b>59</b>	<b>185</b>	<b>5</b>				
Add: Net income attributable to noncontrolling interest	(130,798)	(1,529,940)	(10,5838)	(1,368,319)				
<b>Net income attributable to the Company</b>	<b>5,127</b>	<b>26,029</b>	<b>6,587</b>	<b>426,809</b>				

<b>Net (loss)</b>					<b>(2,4</b>	<b>1,98</b>	<b>4,25</b>	<b>28,8</b>
<b>income before</b>					<b>20,2</b>	<b>5,03</b>	<b>6,68</b>	<b>00,7</b>
<b>income taxes</b>					<b>24)</b>	<b>7</b>	<b>0</b>	<b>22</b>
Income tax					354,	(12,	322,	(33,
benefit (provision)					398	474)	679	744)
					<u>(2,0</u>	<u>1,97</u>	<u>4,57</u>	<u>28,7</u>
<b>Net (loss)</b>					<b>65,8</b>	<b>2,56</b>	<b>9,35</b>	<b>66,9</b>
<b>income</b>					<b>26)</b>	<b>3</b>	<b>9</b>	<b>78</b>
Add: Net loss								
(income)								
attributable to								(1,3
noncontrolling					156,	51,0	50,7	17,2
interest					558	94	20	25)
					<u></u>	<u></u>	<u></u>	<u></u>
<b>Net (loss)</b>					<b>(1,9</b>	<b>2,02</b>	<b>4,63</b>	<b>27,4</b>
<b>income</b>					<b>(1,9</b>	<b>2,02</b>	<b>4,63</b>	<b>27,4</b>
<b>attributable to</b>					<b>09,2</b>	<b>3,65</b>	<b>0,07</b>	<b>49,7</b>
<b>the Company</b>					<b>68)</b>	<b>7</b>	<b>9</b>	<b>53</b>
Undeclared								
distributions to	(1,9	(1,8	(3,9	(3,8	(1,9	(1,8	(5,9	(5,6
preferred	94,3	89,4	88,	26,	94,3	13,8	82,9	39,9
stockholders	13)	70)	625)	086)	13)	20)	38)	06)
Gain on				161				
extinguishment of		83,5		,67				
preferred stock	—	00	—	5				
	<u></u>	<u></u>	<u></u>	<u></u>				
<b>Net income</b>				<b>21,</b>				
<b>attributable to</b>	<b>3,13</b>	<b>24,2</b>	<b>2,5</b>	<b>761</b>				
<b>common</b>	<b>2,55</b>	<b>69,4</b>	<b>50,</b>	<b>,68</b>				
<b>stockholders</b>	<b>\$ 9</b>	<b>\$ 49</b>	<b>\$ 722</b>	<b>\$ 5</b>				
	<u></u>	<u></u>	<u></u>	<u></u>				
Net income per								
share attributable								
to common								
stockholders:								
(Loss) gain on								
extinguishment of						(97,		64,5
preferred stock					—	157)	—	18
					<u></u>	<u></u>	<u></u>	<u></u>

Net (loss) income attributable to common stockholders					(3,903,581)	112,680	(1,352,859)	21,874,365
Net (loss) income per share attributable to common stockholders:								
Basic	\$ 0.16	\$ 1.36	\$ 3	\$ 4	(0.20)	\$ 0.01	\$ 8)	\$ 1.24
Diluted	\$ 0.16	\$ 1.32	\$ 3	\$ 0	(0.20)	\$ 0.01	\$ 8)	\$ 1.20
Weighted average number of common shares outstanding								
Basic	18,712,452	17,762,513	18,658,538	17,436,975	18,906,851	18,045,365	18,742,219	17,598,153
Diluted	18,715,098	18,304,508	18,658,538	18,031,381	18,906,851	18,559,666	18,742,219	18,209,766

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

SOTHERLY HOTELS INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Balance at December 31, 2022



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restr																		
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stoc																		
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rds	—	—	—	—	83	—	—	—	83	—	—	—	—	83	—	—	—	83

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Secured																				
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0/							46		46								46		46	
share							4,		4,								4,		4,	
ar							10		10								10		10	
e	—	—	—	—	—	—	0 )	—	0 )		—	—	—	—	—	—	0 )	—	0 )	



Series D Preferred err ed St oc k, \$0 .5 15 62 5/ sh ar e																		
	—	—	—	—	—	—	(1,199,447)	—	(1,199,447)	—	—	—	—	—	—	(1,199,447)	—	(1,199,447)
Amortization of ESO P shar es	—	—	—	—	(32,916)	45.6	—	—	12.7	—	—	—	—	(32,916)	45.6	—	—	12.7

[illegible]

Conversion of units in Operating Partnership to shares of common stock Preferred stock dividends declared :

		38					(3		
		6,	3,	35			9,		
		00	86	,7			65		
—	—	2	0	97	—	—	7)	—	









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202									
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	97		,6	19	30	46	,3	25	,4
(una	3,	39	96	6,	4,	4,	38	0,	87
udit	31	,7	,8	96	18	23	,0	75	,8
ed)	0	\$ 33	05	\$ 8	\$ 4	\$ 1)	\$ 42)	\$ 4)	\$ 58

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

SOTHERLY HOTELS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Distri				Distri		
	Addit	Unea	butio		Addit	Unea	butio
	ional	rned	ns		ional	rned	ns

							in		Nonc							in		Nonc
	Preferred Stock		Common Stock		Paid-	ESO	Exce	ontro		Preferred		Common		Paid-	ESO	Exce	ontro	
						P	ss of	lling		Stock		Stock				ss of	lling	
	Shar	Par	Shar	Par	Capit	Shar	Earni	Inter		Shar	Par	Shar	Par	Capit	Shar	Earni	Inter	
	es	Value	es	Value	al	es	ngs	est	Total	es	Value	es	Value	al	es	ngs	est	Total
Bala																		
n																		
nce																		
s at																		
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emb					7,	(3,	53	(4,	16	4,		17		7,	(3,	53	(4,	16
er	4,0		17,		65	08	,5	75	,5	05		,4	17	65	08	,5	75	,5
31,	59,	40,	44	17	1,	3,	21	8,	02	9,	40	41	4,	1,	3,	21	8,	02
202	61	59	1,0	4,4	95	39	,7	92	,9	61	,5	,0	41	95	39	,7	92	,9
1	0	\$ 6	58	\$ 10	\$ 4	\$ 8)	\$ 04 )	\$ 8)	\$ 30	0	\$ 96	58	\$ 0	\$ 4	\$ 8)	\$ 04 )	\$ 8)	\$ 30
							(6	(1	(8							(6	(1	(8
							49	61	10							49	61	10
Net							,3	,6	,9							,3	,6	,9
loss	—	—	—	—	—	—	23 )	21 )	44 )	—	—	—	—	—	—	23 )	21 )	44 )
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e of																		
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stoc			5,2	1,7	76				51			26	75	76				51
k	—	—	68	52	0	—	—	—	2	—	—	8	2	0	—	—	—	2

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mon																		
stoc																		
k			15,		30				30			15		30				30
awa			00	15	,1				,3			,0	15	,1				,3
rds	—	—	0	1	49	—	—	—	00	—	—	00	1	49	—	—	—	00
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ESO					(3									(3				
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shar					39	,5			,1					39	,5			,1
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rds	—	—	—	—	95	—	—	—	95	—	—	—	—	95	—	—	—	95

Extended provisioning of preferred shares																		
at the end of the reporting period																		
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k	0)	6)	44	02	1)	—	1	—	6	0)	76)	4	2	1)	—	1	—	6
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udit	51	09	6,6	2,0	60	30	,2	82	,4	51	,0	,6	06	60	30	,2	82	,4
ed)	0	\$ 5	73	\$ 67	\$ 9	\$ 7)	\$ 07)	\$ 3)	\$ 34	0	\$ 95	73	\$ 7	\$ 9	\$ 7)	\$ 07)	\$ 3)	\$ 34

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								02	(5	97
Net								3,	1,	2,
inco								65	09	56
me		—	—	—	—	—	—	7	4)	3
Issu										
anc										
e of										
com				16		34				34
mon				7,	1,	4,				6,
stoc				39	67	82				49
k		—	—	0	4	4	—	—	—	8
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com						(5			54	
mon				40		45			5,	
stoc				,6	40	,5			17	
k		—	—	87	7	78 )	—	—	1	—



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Amortization of ESOs	—	—	—	—	1,981	50,451	—	—	8,564
Amortization of restricted stock awards	—	—	—	—	18,195	—	—	—	18,195
Extension of preference stock	(362,000)	318,930	—	—	—	(252,401)	—	(206,060)	(234,240)

Balan										
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30,						17		(1		
202										
2		3,		18		7,	(2,	26	(2,	46
		97		,7	18	56	93	,0	57	,2
(una		3,	39	33	7,	7,	1,	71	8,	11
udit		31	,7	,6	33	01	76	,9	74	,6
ed)		0	\$ 33	80	\$ 7	\$ 9	\$ 2)	\$ 51)	\$ 6)	\$ 30

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, 2023 (unaudited)	Six Months Ended June 30, 2022 (unaudited)	Nine Months Ended September 30, 2023 (unaudited)	Nine Months Ended September 30, 2022 (unaudited)
<b>Cash flows from operating activities:</b>				
Net Income	6,645,1 \$ 85	26,794, \$ 415	4,579,35 \$ 9	28,766,9 \$ 78
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	9,341,5 04	9,184,8 15	14,056,5 23	13,889,6 21

Amortization of deferred financing costs	318,69	9	800,525	448,467	923,777
Amortization of mortgage premium	(12,341)	(12,341)	(12,341)	(18,511)	(18,511)
Gain on involuntary conversion of assets	(779,64	5)	(51,547)	(1,331,3	(1,473,8
Unrealized (gain) loss on hedging activities	155,63	2	(1,534,7	60)	(2,992,3
Loss on early extinguishment of debt	—	—	5,944,8	81	5,944,88
	(275,49	4)	—	4)	—
PPP loan forgiveness			(30,053,		(30,053,
Gain on disposal of assets	—	—	977)	(4,700)	977)
Loss on disposal of assets	—	—	490,613	—	491,828
ESOP and stock - based compensation	314,95	1	522,689	370,714	895,945
Changes in assets and liabilities:					
Accounts receivable	950,78	3	215,397	1,086,90	764,318
Prepaid expenses, inventory and other assets	(2,281,	131)	(1,390,2	(1,350,7	(580,05
Accounts payable and other accrued liabilities	(1,015,	280)	(9,794,4	236,206	(12,876,
Advance deposits	470,25	2	338,825	639,444	525,840
<b>Net cash provided by operating activities</b>	<b>13,833,</b>	<b>115</b>	<b>1,454,8</b>	<b>18,488,5</b>	<b>4,207,97</b>
<b>Cash flows from investing activities:</b>					
Proceeds from sale of hotel properties	—	—	52,403,	—	52,403,9
Improvements and additions to hotel properties	(4,503,	657)	(2,598,1	(6,069,6	(4,809,2
Proceeds from involuntary conversion	426,44	2	570,179	1,312,67	1,677,44
Proceeds from sale of assets	137,25	2	34,147	141,952	32,932

<b>Net cash (used in) provided by investing activities</b>	<b>(3,939,963)</b>	<b>50,410,160</b>	<b>(4,615,045)</b>	<b>49,305,068</b>
<b>Cash flows from financing activities:</b>				
Proceeds from mortgage loans	2,715,833	7,777,475	2,715,833	7,777,475
Payments on mortgage loans	(3,010,079)	(33,621,590)	(5,580,239)	(36,548,807)
Payments on secured notes	—	(20,000,000)	—	(20,000,000)
Payments on unsecured notes	(348,593)	—	(554,965)	(55,689)
Payments of deferred financing costs	(413,909)	(246,714)	(413,909)	(246,714)
Preferred dividends paid	(3,988,625)	—	(7,977,251)	—
<b>Net cash used in financing activities</b>	<b>(5,045,373)</b>	<b>(46,090,829)</b>	<b>(11,810,531)</b>	<b>(49,073,735)</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>4,847,779</b>	<b>5,774,224</b>	<b>2,062,942</b>	<b>4,439,305</b>
<b>Cash, cash equivalents and restricted cash at the beginning of the period</b>	<b>27,341,630</b>	<b>25,578,537</b>	<b>27,341,630</b>	<b>25,578,537</b>
<b>Cash, cash equivalents and restricted cash at the end of the period</b>	<b>\$ 32,189,409</b>	<b>\$ 31,352,761</b>	<b>\$ 29,404,572</b>	<b>\$ 30,017,842</b>
<b>Supplemental disclosures:</b>				
Cash paid during the period for interest	8,212,620	14,157,708	12,619,680	20,046,224
Cash paid during the period for income taxes	528,000	39,908	614,231	39,908
<b>Non-cash investing and financing activities:</b>				
Change in amount of improvements to hotel property in accounts payable and accrued liabilities	\$ 79,838	\$ 144,220	\$ 8,684	\$ 959,859

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

SOTHERLY HOTELS LP				
CONSOLIDATED BALANCE SHEETS				
	June 30, 2023 (unaudited)	December 31, 2022	September 30, 2023 (unaudited)	December 31, 2022
<b>ASSETS</b>				
	360,05	365,070,	357,027,	365,070
Investment in hotel properties, net	\$ 6,196	\$ 725	\$ 422	\$ ,725
	24,226,	21,918,6	19,198,6	21,918,
Cash and cash equivalents	602	80	25	680
	7,962,8	5,422,95	10,205,9	5,422,9
Restricted cash	07	0	47	50
	5,247,3	5,844,90	4,776,70	5,844,9
Accounts receivable, net	24	4	1	04
	2,558,8	2,650,52	2,519,56	2,650,5
Loan receivable - affiliate	42	6	6	26
Prepaid expenses, inventory and other assets	10,520,047	8,311,862	9,553,741	8,311,862
	<b>410,57</b>	<b>409,219,</b>	<b>403,282,</b>	<b>409,219</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,818</b>	<b>\$ 647</b>	<b>\$ 002</b>	<b>\$ ,647</b>
<b>LIABILITIES</b>				
	319,28	320,482,	317,633,	320,482
Mortgage loans, net	\$ 9,449	\$ 103	\$ 743	\$ ,103
	1,929,0	2,545,97	1,722,70	2,545,9
Unsecured notes, net	73	5	0	75
Accounts payable and other accrued liabilities	25,516,483	25,704,835	25,957,518	25,704,835
	2,703,2	2,233,01	2,872,45	2,233,0
Advance deposits	65	3	7	13
	4,082,4	4,082,47	2,088,16	4,082,4
Dividends and distributions payable	72	2	0	72

	353,52	355,048,	350,274,	355,048
<b>TOTAL LIABILITIES</b>	<b>\$ 0,742</b>	<b>\$ 398</b>	<b>\$ 578</b>	<b>\$ ,398</b>
Commitments and contingencies (see Note 5)	—	—	—	—
<b>PARTNERS' CAPITAL</b>				
Preferred units, 11,000,000 units authorized;				
8.0% Series B cumulative redeemable perpetual preferred unit;				
1,464,100 and 1,464,100 units issued and outstanding; aggregate liquidation preference each \$44,655,050, at June 30, 2023 and	34,344,	34,344,0		
December 31, 2022, respectively.	\$ 086	\$ 86		
7.875% Series C cumulative redeemable perpetual preferred units,				
1,346,110 and 1,346,110 units issued and outstanding; aggregate liquidation preference each \$40,940,681, each at June 30, 2023 and	31,571,	31,571,7		
December 31, 2022, respectively.	778	78		
8.25% Series D cumulative redeemable perpetual preferred units,				
1,163,100 and 1,163,100 units issued and outstanding; aggregate liquidation preference each \$35,674,458, each at June 30, 2023 and	27,504,	27,504,9		
December 31, 2022, respectively.	901	01		
General Partner: 200,610 units and 197,767 units issued and outstanding as of				
June 30, 2023 and December 31, 2022, respectively.	(77,223)	(106,022)		



Limited Partners: 19,860,381 units and 19,578,946 units issued and outstanding as of June 30, 2023 and December 31, 2022, respectively.	(36,292,466)	(39,143,494)		
8.0% Series B cumulative redeemable perpetual preferred unit; 1,464,100 and 1,464,100 units issued and outstanding; aggregate liquidation preference each \$44,655,050, at September 30, 2023 and December 31, 2022, respectively.			34,344,086	34,344,086
7.875% Series C cumulative redeemable perpetual preferred units, 1,346,110 and 1,346,110 units issued and outstanding; aggregate liquidation preference each \$40,940,681, each at September 30, 2023 and December 31, 2022, respectively.			31,571,778	31,571,778
8.25% Series D cumulative redeemable perpetual preferred units, 1,163,100 and 1,163,100 units issued and outstanding; aggregate liquidation preference each \$35,674,458, each at September 30, 2023 and December 31, 2022, respectively.			27,504,901	27,504,901
General Partner: 205,220 units and 197,767 units issued and outstanding as of September 30, 2023 and December 31, 2022, respectively.			(117,659)	(106,022)
Limited Partners: 19,855,771 units and 19,578,946 units issued and outstanding as of September 30, 2023 and December 31, 2022, respectively.			(40,295,682)	(39,143,494)
<b>TOTAL PARTNERS' CAPITAL</b>	<b>57,051,076</b>	<b>54,171,249</b>	<b>53,007,424</b>	<b>54,171,249</b>

<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>410,57</b>	<b>409,219,</b>	<b>403,282,</b>	<b>409,219</b>
	<b>\$ 1,818</b>	<b>\$ 647</b>	<b>\$ 002</b>	<b>\$ ,647</b>

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

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**SOTHERLY HOTELS LP**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

	Three Months Ended  June 30, 2023 (unaudited )	Three Months Ended  June 30, 2022 (unaudited )	Six Months Ended  June 30, 2023 (unaudite d)	Six Months Ended  June 30, 2022 (unaudite d)	Three Months Ended  Septembe r 30, 2023 (unaudited )	Three Months Ended  Septembe r 30, 2022 (unaudited )	Nine Months Ended  Septemb er 30, 2023 (unaudite d)	Nine Months Ended  Septemb er 30, 2022 (unaudite d)
<b>REVENUE</b>								
Rooms department	33,2 53,5 \$ 23	32,5 45,5 \$ 88	61,6 55,2 \$ 11	57,3 98,9 \$ 73	26,2 60,5 \$ 86	26,1 10,0 \$ 30	87,9 15,7 \$ 97	83,5 09,0 \$ 03
Food and beverage department	9,50 0,97 4	7,71 2,31 0	18,2 49,7 00	13,3 30,0 46	7,52 2,75 3	6,81 6,32 7	25,7 72,4 53	20,1 46,3 73
Other operating departments	6,26 2,83 6	6,91 2,36 1	12,6 03,6 99	14,7 93,8 42	5,39 8,02 4	6,28 6,33 8	18,0 01,7 24	21,0 80,1 81
<b>Total revenue</b>	<b>49,0 17,3 33</b>	<b>47,1 70,2 59</b>	<b>92,5 08,6 10</b>	<b>85,5 22,8 61</b>	<b>39,1 81,3 63</b>	<b>39,2 12,6 95</b>	<b>131, 689, 974</b>	<b>124, 735, 557</b>
<b>EXPENSES</b>								
Hotel operating expenses								

	7,01	7,20	13,4	13,1	6,43	6,53	19,8	19,6
Rooms	6,33	5,58	29,4	55,3	7,08	9,30	66,5	94,6
department	9	5	34	43	1	6	15	49
Food and	6,39	5,25	12,3	9,13	5,60	4,73	17,9	13,8
beverage	0,86	6,16	26,4	6,78	7,35	1,78	33,7	68,5
department	7	4	27	1	0	7	77	67
	2,30	2,59	4,62	5,08	2,19	2,38	6,81	7,47
Other operating	5,75	9,37	1,60	3,47	8,05	6,90	9,66	0,38
departments	5	2	3	9	8	1	1	0
	18,4	17,3	35,2	33,4	17,3	15,7	52,5	49,1
	62,3	37,5	09,9	00,9	72,1	31,9	82,0	32,8
Indirect	36	85	13	46	67	38	80	84
<b>Total hotel</b>	<b>34,1</b>	<b>32,3</b>	<b>65,5</b>	<b>60,7</b>	<b>31,6</b>	<b>29,3</b>	<b>97,2</b>	<b>90,1</b>
<b>operating</b>	<b>75,2</b>	<b>98,7</b>	<b>87,3</b>	<b>76,5</b>	<b>14,6</b>	<b>89,9</b>	<b>02,0</b>	<b>66,4</b>
<b>expenses</b>	<b>97</b>	<b>06</b>	<b>77</b>	<b>49</b>	<b>56</b>	<b>32</b>	<b>33</b>	<b>80</b>
	4,76	4,61	9,34	9,18	4,71	4,70	14,0	13,8
Depreciation and	3,19	9,74	1,50	4,81	5,01	4,80	56,5	89,6
amortization	3	3	4	5	9	6	23	21
Loss on disposal of		520,		490,				
assets	—	156	—	613				
(Gain) loss on					(4,7	1,21	(4,7	491,
disposal of assets					00)	5	00)	828
	1,78	1,43	3,7	2,94	1,68	1,82	5,45	4,77
Corporate general	9,04	2,36	69,	6,39	8,53	7,74	8,34	4,13
and administrative	1	6	805	3	5	6	0	9
	<b>40,7</b>	<b>38,9</b>	<b>78,6</b>	<b>73,3</b>	<b>38,0</b>	<b>35,9</b>	<b>116,</b>	<b>109,</b>
<b>Total operating</b>	<b>27,5</b>	<b>70,9</b>	<b>98,6</b>	<b>98,3</b>	<b>13,5</b>	<b>23,6</b>	<b>712,</b>	<b>322,</b>
<b>expenses</b>	<b>31</b>	<b>71</b>	<b>86</b>	<b>70</b>	<b>10</b>	<b>99</b>	<b>196</b>	<b>068</b>
	<b>8,28</b>	<b>8,19</b>	<b>13,8</b>	<b>12,1</b>	<b>1,16</b>	<b>3,28</b>	<b>14,9</b>	<b>15,4</b>
<b>NET OPERATING</b>	<b>9,80</b>	<b>9,28</b>	<b>09,9</b>	<b>24,4</b>	<b>7,85</b>	<b>8,99</b>	<b>77,7</b>	<b>13,4</b>
<b>INCOME</b>	<b>2</b>	<b>8</b>	<b>24</b>	<b>91</b>	<b>3</b>	<b>6</b>	<b>78</b>	<b>89</b>
Other income								
(expense)								
	(4,2	(5,3	(8,4	(11,	(4,4	(4,2	(12,	(15,
	88,3	42,9	01,9	056,	66,6	24,3	868,	280,
Interest expense	67)	40)	64)	144)	30)	87)	595)	531)

	222,	27,4	369,	51,9	222,	40,5	592,	92,5
Interest income	772	86	437	34	878	81	315	15
Loss on early extinguishment of debt	—	(5,9 44,8 81)	—	(5,9 44,8 81)	—	—	—	(5,9 44,8 81)
Unrealized gain (loss) on hedging activities	286, 831	572, 497	(15 5,63 2)	1,53 4,76 0	— 103, 946	1,45 7,55 2	— (51, 686)	2,99 2,31 1
PPP loan forgiveness	—	—	275, 494	—	—	—	275, 494	—
Gain on sale of hotel properties	—	30,0 53,9 77	—	30, 053 ,97 7	—	—	—	30,0 53,9 77
Gain on involuntary conversion of assets	763, 169	51,5 47	779, 645	51,5 47	551, 729	1,42 2,29 5	1,33 1,37 4	1,47 3,84 2
<b>Net income before income taxes</b>	<b>5,27</b> <b>4,20</b> <b>7</b>	<b>27,6</b> <b>16,9</b> <b>74</b>	<b>6,67</b> <b>6,90</b> <b>4</b>	<b>26,8</b> <b>15,6</b> <b>84</b>				
Income tax provision	(16, 537)	(11, 615)	(31, 719)	(21, 269)				
	<b>5,25</b> <b>7,67</b>	<b>27,6</b> <b>05,3</b>	<b>6,64</b> <b>5,18</b>	<b>26,7</b> <b>94,4</b>				
<b>Net income</b>	<b>0</b>	<b>59</b>	<b>5</b>	<b>15</b>				
<b>Net (loss) income before income taxes</b>					<b>(2,4</b> <b>20,2</b> <b>24)</b>	<b>1,98</b> <b>5,03</b> <b>7</b>	<b>4,25</b> <b>6,68</b> <b>0</b>	<b>28,8</b> <b>00,7</b> <b>22</b>
Income tax benefit (provision)	354, 398	(12, 474)	322, 679	(33, 744)				
	<b>(2,0</b> <b>65,8</b>	<b>1,97</b> <b>2,56</b>	<b>4,57</b> <b>9,35</b>	<b>28,7</b> <b>66,9</b>				
<b>Net (loss) income</b>	<b>26)</b>	<b>3</b>	<b>9</b>	<b>78</b>				

Undeclared distributions to preferred unit holders	(1,994,313)	(1,889,470)	(3,988,625)	(3,826,086)	(1,994,313)	(1,889,470)	(5,982,938)	(5,639,906)
Gain on extinguishment of preferred units	—	83,500	—	161,675	—	—	—	—
<b>Net income attributable to general and limited partnership unit holders</b>	<b>3,26</b>	<b>25,7</b>	<b>2,65</b>	<b>23,1</b>	<b>3,35</b>	<b>99,3</b>	<b>6,56</b>	<b>30,0</b>
	<u>\$ 7</u>	<u>\$ 89</u>	<u>\$ 0</u>	<u>\$ 04</u>				
Net income attributable per general and limited partner unit:								
(Loss) gain on extinguishment of preferred stock	—	(97,157)	—	64,518	—	—	—	—
<b>Net (loss) income attributable to general and limited partnership unit holders</b>	<b>(4,0</b>	<b>(1,4</b>	<b>23,1</b>	<b>60,1</b>	<b>61,5</b>	<b>03,5</b>	<b>91,5</b>	<b>39)</b>
	<u>\$ 39)</u>	<u>\$ 86</u>	<u>\$ 79)</u>	<u>\$ 90</u>				
Net (loss) income attributable per general and limited partner unit:								
Basic	\$ 0.16	\$ 1.33	\$ 0.13	\$ 1.21	(0.20)	\$ -	(0.07)	\$ 1.21
Diluted	\$ 0.16	\$ 1.32	\$ 0.13	\$ 1.20	(0.20)	\$ -	(0.07)	\$ 1.20
Weighted average number of general and limited partner units outstanding								

Basic	19,8	19,2	19,8	18,9	19,8	19,5	19,8	19,1
	10,9	91,0	06,1	81,7	10,9	01,3	07,7	16,2
	91	83	73	82	91	10	97	24
Diluted	19,8	19,4	19,8	19,1	19,8	19,6	19,8	19,3
	13,6	14,6	06,1	53,7	10,9	04,2	07,7	07,8
	37	02	73	58	91	22	97	32

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

**SOTHERLY HOTELS LP**  
**CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL**

	Preferred Units				General Partner		Limited Partner		Total	Preferred Units				General Partner		Limited Partner		Total
	Serie B	Serie C	Serie D		Units	Amount	Units	Amount		Serie B	Serie C	Serie D		Units	Amount	Units	Amount	
	Units	Amount	Amount	Amount	Units	Amount	Units	Amount		Units	Amount	Amount	Amount	Units	Amount	Units	Amount	
	Units	Amount	Amount	Amount	Units	Amount	Units	Amount		Units	Amount	Amount	Amount	Units	Amount	Units	Amount	
									(									
									3	5								
									9	4								
									,	,								
									1	1								
						(1		4	7							(3		
Balance at	3,9	34,	31,	27,		6,	19,	,	,	3,	34	31	27			19	9,	54
December 31, 2022	73,	34	57	50	19	0	57	4	2	97	,3	,5	,5	19	(1	,5	14	,1
	31	4,0	1,7	4,9	7,7	2	8,9	9	4	3,	44	71	04	7,	06	78	3,	71
	0	\$ 86	\$ 78	\$ 01	67	\$ 2)	46	\$ 4)	\$ 9	31	,0	,7	,9	76	,0	,9	49	,2
										0	\$ 86	\$ 78	\$ 01	7	\$ 22)	46	\$ 4)	\$ 49

Amortiz								2	2									
ation of								2	2									
restrict								,	,									
ed							2	6	8							22	22	
unit							2	5	8					22		,6	,8	
awards	—	—	—	—	—	9	—	4	3	—	—	—	—	—	9	—	54	83
								1	1									
								8	8									
								3	5									
Unit							1,	,	,							28	18	18
based							8	28	7	6				2,	1,	1,	3,	5,
compe					2,8	5	1,4	8	3					84	85	43	78	63
nsation	—	—	—	—	43	7	35	0	7	—	—	—	—	3	7	5	0	7
								1	1									
								,	,									
								3	3									
								7	8									
							1	3	7								1,	1,
							3,	,	,								37	38
							8	6	5					13			3,	7,
Net							7	3	1					,8			63	51
income	—	—	—	—	—	5	—	9	4	—	—	—	—	—	75	—	9	4
								(										
								3	5									
								7	5									
								,	,									
Balanc								5	7									
es at								6	6									
March																	(3	
31,							(9	3	7	3,	34	31	27			19	7,	55
2023	3,9	34,	31,	27,		0,	19,	,	,	97	,3	,5	,5	20	(9	,8	56	,7
	73,	34	57	50	20	0	86	4	2	3,	44	71	04	0,	0,	60	3,	67
(unaud	31	4,0	1,7	4,9	0,6	6	0,3	2	8	31	,0	,7	,9	61	06	,3	42	,2
ited)	0	\$ 86	\$ 78	\$ 01	10	\$ 1)	81	\$ 1)	\$ 3	0	\$ 86	\$ 78	\$ 01	0	\$ 1)	81	\$ 1)	\$ 83

Amortiz								4	4									
ation of								1	1									
restrict								,	,									
ed						4		3	7							41	41	
unit						1		5	7					41		,3	,7	
awards	—	—	—	—	—	7	—	3	0	—	—	—	—	—	7	—	53	70
								(	(									
								3	3									
								,	,									
								9	9									
								4	8									
Preferr						(3		8	8							(3,	(3,	
ed						9,		,	,					(3		94	98	
distribu						8		7	6					9,		8,	8,	
tions						8		3	2					88		73	62	
paid	—	—	—	—	—	6)	—	9)	5)	—	—	—	—	—	6)	—	9)	5)
								(	(									
								2	2									
								6	7									
Unit								,	,							(2	(2	
based						(2		7	0							6,	7,	
compe						7		5	2					(2		75	02	
nsation	—	—	—	—	—	0)	—	2)	2)	—	—	—	—	—	70)	—	2)	2)
								5	5									
								,	,									
								2	2									
								0	5									
						5		5	7							5,	5,	
						2,		,	,							20	25	
						5		0	6					52		5,	7,	
Net						7		9	7					,5		09	67	
income	—	—	—	—	—	7	—	3	0	—	—	—	—	—	77	—	3	0



Balances at June 30, 2023 (unaudited)	(36,295,721)																	
	(72,490,316)																	
	3,973,629																	
	73,311,731																	
	31,401,706																	
	27,000,000																	
	7,192,395																	
	19,829,051																	
	,400,367																	
	0 \$ 86 \$ 78 \$ 01 10 3) 81 \$ 6) \$ 6									0 \$ 86 \$ 78 \$ 01 0 \$ 3) 81 \$ 6) \$ 76								
Amortization of restricted equity unit awards																		
Preferr ed distribu tions paid																		
Unit based compe nsation																		

Conversion of units in Operating Partnership to shares of Common Stock					4,610	(4,610)			
Net loss								(2,045,826)	(2,045,826)
Balances at September 30, 2023	3,973,310	\$ 34,315,270	\$ 31,045,190	\$ 27,045,201	\$ 20,045,175	\$ (1,855,716)	\$ 19,295,557	\$ 0,295,680	\$ 53,047,414
(unaudited)	0	\$ 86	\$ 78	\$ 01	0	\$ 59)	71	\$ 2)	\$ 24

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

**SOTHERLY HOTELS LP**

**CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL**

	General	Limited		General	Limited
Preferred Units	Partner	Partner	Preferred Units	Partner	Partner

	Series									Series								
	Series B			Series C			Series D			Series B			Series C			Series D		
	Amoun			Units			Amoun			Amoun			Units			Amoun		
	Unit	Amo	Unit	Amo	Unit	Amo	Unit	Amo	Tot	Unit	Amo	Unit	Amo	Unit	Amo	Unit	Amo	Tot
	s	unts	s	unts	s	ts	s	ts	al	s	unts	s	unts	s	ts	s	nts	al
Bal								(									(	
anc								7	1								7	1
es								5	9								5	9
at								,	,								,	,
De								3	6								3	6
ce																		
mb						(4		1	6						(4		1	6
er						6		5	0						6	18	5	0
31,	4,0	35,	32,	27,		9,	18,	,	,	4,0	35,	32,	27,		9,	,3	,	,
202	59,	42	47	54	18	8	38	4	1	59,	42	47	54	18	8	89	4	1
1	61	0,7	4,7	9,8	5,7	0	9,0	6	0	61	0,7	4,7	9,8	5,7	0	,0	6	0
	0	\$ 84	\$ 60	\$ 32	48	\$ 5)	30	\$ 9)	\$ 2	0	\$ 84	\$ 60	\$ 32	48	\$ 5)	30	\$ 9)	\$ 2
Am																		
orti																		
zati																		
on																		
of																		
rest																		
ri																		
ct																		
ed								1	1								1	1
								8	8								8	8
unit								,	,								,	,
aw						1		0	1						1		0	1
ard						8		1	9						8		1	9
s	—	—	—	—	—	2	—	3	5	—	—	—	—	—	2	—	3	5
Unit								3	3								3	3
bas								4	4								4	4
ed								3	5								3	5
co																		
mp						2,		,	,						2,	18	,	,
ens						2	18	1	4						2	8,	1	4
atio					1,9	2	8,3	9	2					1,9	2	36	9	2
n	—	—	—	—	03	7	65	4	1	—	—	—	—	03	7	5	4	1

Extrinsic measurement of preference error and unit sales																		
	5									5								
	3 1									3 1								
	3 1									3 1								
	(3 (2 5, , ,									(3 (2 5, 21 , ,								
	(2 02, 25, 3 21 5 1	(2 02, 25, 3 5, 5 1																
	2,5 60 15 2,1 8 5,5 4 7	2,5 60 15 2,1 8 59 4 7																
	00) 2) 9) — 78 9 97 8 7	00) 2) 9) — 78 9 7 8 7																
	( (	( (																
	8 8	8 8																
0 1	0 1																	
2 0	2 0																	
(8 , ,	(8 , ,																	
,1 8 9	,1 8 9																	
0 3 4	0 3 4																	
— — — — — 9) — 5) 4)	— — — — — 9) — 5) 4)																	
Balances at March 31, 2022																		
( 7 1 5 9 , , 2 2 (4 2 2 7 3 3	( 7 1 5 9 , , 2 2 (4 2 2 7 18 3 3																	
4,0 35, 32, 27, 0, 18, , ,	4,0 35, 32, 27, 0, ,7 , ,																	
37, 11 24 54 18 1 79 5 9	37, 11 24 54 18 1 92 5 9																	
11 8,1 9,6 9,8 9,8 1 2,9 4 5	11 8,1 9,6 9,8 9,8 1 ,9 4 5																	
0 \$ 82 \$ 01 \$ 32 29 \$ 6) 92 \$ 9) \$ 0	0 \$ 82 \$ 01 \$ 32 29 \$ 6) 92 \$ 9) \$ 0																	

Amortization of restricted unit award	—	—	—	—	—	2	—	3	5	—	—	—	—	—	2	—	3	5
Unit-based compensation expense	—	—	—	—	4	1	4	5	6	—	—	—	—	4	1	54	5	6
Extinguishment of preferred equity		(2	(4			5,					(2	(4			5,	26		
Unit-based	(2	11,	36,			6	26	7	0	(2	11,	36,			6	7,	7	0
Unit-based	7,6	11	24		2,7	3	7,4	7	4	7,6	11	24		2,7	3	44	7	4
Unit-based	00)	7)	6)	—	01	3	43	8	8	00)	7)	6)	—	01	3	3	8	8

Net inc om e									2	2									2	2			
									7	7									7	7			
									,	,									,	,			
									3	6									3	6			
									2	2	0									2	2	0	
									7	9	5									7	9	5	
									6,	,	,									6,	,	,	
									0	3	3									0	3	3	
									5	0	5									5	0	5	
									4	—	5	9									4	—	5
Bal anc es at Jun e 30, 202 2									(										(				
									4	4									4	4			
									6	7									6	7			
									,	,									,	,			
									9	1									9	1			
									(1	6	1									(1	6	1	
									8	5	6									8	19	5	6
(un aud ited )	4,0	34,	31,	27,		7,	19,	,	,	4,0	34,	31,	27,		7,	,0	,	,					
	09,	90	81	54	19	8	09	7	6	09,	90	81	54	19	8	97	7	6					
	51	7,0	3,3	9,8	2,9	5	7,4	4	4	51	7,0	3,3	9,8	2,9	5	,4	4	4					
	0	\$ 65	\$ 55	\$ 32	04	\$ 6)	89	\$ 8)	\$ 8	0	\$ 65	\$ 55	\$ 32	04	\$ 6)	89	\$ 8)	\$ 8					
Am orti zati on of rest rict ed  unit aw ard s																							

Unit									3	3
bas									0	1
ed									9	2
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ens							1		0	1
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n	—	—	—	—	—		1	—	0	1
Exti										
ngu										
ish										(
me									6	1
nt									4	9
of									4	5
pref										
erre		(5	(2			9,	31	,	,	
d	(3	62,	41,	(4		4	5,	5	4	
unit	6,2	97	57	4,9	3,1	6	74	7	4	
s	00)	9)	6)	32)	90	7	0	3	7)	
									1	1
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									9	9
									5	7
							1		2	2
Net							9,		,	,
inc							7		8	5
om							2		3	6
e	—	—	—	—	—	5	—	8	3	

Bal										
anc										
es										
at										
Se									(	
pte									4	4
mb									4	9
er									,	,
30,									0	2
202										
2							(1		4	2
							5	19	1	4
(un		3,9	34,	31,	27,		5,	,4	,	,
aud		73,	34	57	50	19	3	13	3	0
ited		31	4,0	1,7	4,9	6,0	6	,2	2	8
)		0	\$ 86	\$ 79	\$ 00	94	\$ 1)	29	\$ 4)	\$ 0

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, 2023 (unaudited)	Six Months Ended June 30, 2022 (unaudited)	Nine Months Ended September 30, 2023 (unaudited)	Nine Months Ended September 30, 2022 (unaudited)
<b>Cash flows from operating activities:</b>				
Net income	6,645,1 \$ 85	26,794, \$ 415	4,579,3 \$ 59	28,766, \$ 978
Adjustments to reconcile net income to net cash provided by operating activities:				



	9,341,504	9,184,815	14,056,523	13,889,621
Depreciation and amortization				
Amortization of deferred financing costs	318,699	800,525	448,467	923,777
Amortization of mortgage premium	(12,341)	(12,341)	(18,511)	(18,511)
Gain on involuntary conversion of assets	(779,645)	(51,547)	(1,331,374)	(1,473,842)
Unrealized (gain) loss on hedging activities	155,632	(1,534,760)	51,686	(2,992,311)
Loss on early extinguishment of debt	—	5,944,881	—	5,944,881
	(275,494)	—	(275,494)	—
PPP loan forgiveness		(30,053)		(30,053)
Gain on disposal of assets	—	490,613	(4,700)	977
Loss on disposal of assets	—	3	—	491,828
ESOP and unit - based compensation	223,268	420,906	239,754	751,223
Changes in assets and liabilities:				
Accounts receivable	950,783	215,397	1,086,903	764,318
Prepaid expenses, inventory and other assets	(2,281,131)	(1,390,225)	(1,350,705)	(580,056)
Accounts payable and other accrued liabilities	(1,015,280)	(9,794,417)	236,206	(12,876,519)
Advance deposits	470,252	338,825	639,444	525,840
<b>Net cash provided by operating activities</b>	<b>13,741,432</b>	<b>1,353,110</b>	<b>18,357,558</b>	<b>4,063,250</b>
<b>Cash flows from investing activities:</b>				
Proceeds from sale of hotel properties	—	52,403,981	—	52,403,981

Improvements and additions to hotel properties	(4,503,657)	(2,598,147)	(6,069,672)	(4,809,289)
ESOP loan payments received		101,783		
	91,683	3	130,960	144,722
Proceeds from involuntary conversion	426,442	570,179	1,312,675	1,677,444
Proceeds from sale of assets	137,252	34,147	141,952	32,932
<b>Net cash (used in) provided by investing activities</b>	<b>(3,848,280)</b>	<b>50,511,943</b>	<b>(4,484,085)</b>	<b>49,449,790</b>
<b>Cash flows from financing activities:</b>				
Proceeds from mortgage loans	2,715,833	7,777,475	2,715,833	7,777,475
Payments on mortgage loans	(3,010,079)	(33,621,590)	(5,580,239)	(36,548,807)
Payments on secured notes	—	(20,000,000)	—	(20,000,000)
Payments on unsecured notes	(348,593)	—	(554,965)	(55,689)
Payments of deferred financing costs	(413,909)	(246,714)	(413,909)	(246,714)
Preferred dividends paid	(3,988,625)	—	(7,977,251)	—
<b>Net cash used in financing activities</b>	<b>(5,045,373)</b>	<b>(46,090,829)</b>	<b>(11,810,531)</b>	<b>(49,073,735)</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>4,847,779</b>	<b>5,774,224</b>	<b>2,062,942</b>	<b>4,439,305</b>
<b>Cash, cash equivalents and restricted cash at the beginning of the period</b>	<b>27,341,630</b>	<b>25,578,537</b>	<b>27,341,630</b>	<b>25,578,537</b>
<b>Cash, cash equivalents and restricted cash at the end of the period</b>	<b>32,189,409</b>	<b>31,352,761</b>	<b>29,404,572</b>	<b>30,017,842</b>
<b>Supplemental disclosures:</b>				

Cash paid during the period for interest	8,278,1	14,123,	12,678,	19,942,
	\$ 26	\$ 048	\$ 642	\$ 876
Cash paid during the period for income taxes	528,00			
	\$ 0	\$ 39,908	\$ 614,231	\$ 39,908
<b>Non-cash investing and financing activities:</b>				
Change in amount of improvements to hotel property in accounts payable and accrued liabilities		144,22		
	\$ 79,838	\$ 0	\$ 8,684	\$ 959,859

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

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

## 1. Organization and Description of Business

Sotherly Hotels Inc. (the “Company”) is a self-managed and self-administered lodging real estate investment trust (“REIT”) that was incorporated in Maryland on August 20, 2004. The Company historically has 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, as of **June 30, 2023** **September 30, 2023**, consisted of investments in ten hotel properties, comprising 2,786 rooms and two hotel commercial condominium units and their associated rental programs. Seven of our hotels operated under the Hilton, DoubleTree, and Hyatt brands, and three are 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”).

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, which at **June 30, 2023** **September 30, 2023** was approximately **96.3** **98.2**% owned by the Company, and its subsidiaries, lease its hotels to direct and indirect subsidiaries of MHI Hospitality TRS Holding, Inc., MHI Hospitality TRS, LLC and certain of its subsidiaries (collectively, "MHI TRS Entities"), each of which is a wholly-owned subsidiary of the Operating Partnership. The MHI TRS Entities have engaged Our Town Hospitality, LLC ("Our Town"), an eligible independent management company, to operate the hotels under management contracts. MHI Hospitality TRS Holding, Inc. ("MHI TRS") is treated as a taxable REIT subsidiary for federal income tax purposes.

All references in these "Notes to Consolidated Financial Statements" to "we", "us", "our" and "Sotherly" refer to the Company, its Operating Partnership and its subsidiaries and predecessors, collectively, unless the context otherwise requires or where otherwise indicated.

## Overview of Significant Transactions

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

On February 10, 2022, Louisville Hotel Associates, LLC, a Delaware limited liability company and an affiliate of the Company, closed on the sale of the Sheraton Louisville Riverside hotel located in Jeffersonville, Indiana to Riverside Hotel, LLC, an Indiana limited liability company, for a purchase price of \$11.5 million, including the assumption by the buyer of the mortgage loan on the hotel.

On June 10, 2022, the Company closed the sale of the DoubleTree by Hilton Raleigh-Brownstone University hotel. The Company used approximately \$18.6 million of the net cash proceeds from the sale of the hotel to repay the existing mortgage on the property and approximately \$19.8 million of the net cash proceeds to repay a portion of the secured notes (the "Secured Notes") with KWHP SOHO, LLC and MIG SOHO, LLC (together, the "Investors") as required by the terms of the Secured Notes. The Company used the remaining net cash proceeds for general corporate purposes. Of the proceeds paid to the investors from the sale of the hotel, approximately \$13.3 million was applied toward principal, approximately \$6.3 million was applied toward the exit fee owed under the Secured Notes, and approximately \$0.2 million was applied toward accrued interest. Additionally, the terms of the Secured Notes allowed for the release of a portion of the interest reserves in the amount of approximately \$1.6 million, of which approximately \$1.1 million was applied toward principal and approximately \$0.5 million was applied toward the exit fee.

On June 28, 2022, affiliates of the Company entered into amended loan documents to modify the existing mortgage loan on the Hotel Alba Tampa with the existing lender, Fifth Third Bank. Pursuant to the amended loan documents, the amended mortgage loan: (i) has an increased principal balance of \$25.0 million; (ii) includes an extended maturity date of June 30, 2025, which may be further extended for two additional periods of one year each, subject to certain conditions; (iii)

bears a floating interest rate of SOFR plus 2.75%, subject to a floor rate of 2.75%; (iv) amortizes on a 25-year schedule requiring monthly payments of interest plus principal of

\$40,600; and (v) is guaranteed by the Operating Partnership up to \$12.5 million, with the guaranty reducing to \$6.25 million upon the successful achievement of certain performance milestones.

On June 29, 2022, the Company used the proceeds from the refinance of the Hotel Alba Tampa, along with approximately \$0.2 million of cash on hand as well as the balance of the interest reserve under the Secured Notes of approximately \$0.5 million, to satisfy and pay in full the Secured Notes. The Investors received approximately \$8.3 million in satisfaction of the Secured Notes, of which approximately \$5.6 million was applied toward principal, approximately \$2.6 million was applied toward the exit fee owed under the Secured Notes, and approximately \$0.02 million was applied toward accrued interest. Concurrent with the cancellation of the Secured Notes, the following agreements were also terminated in accordance with their terms: (i) Note Purchase Agreement; (ii) Pledge and Security Agreement; (iii) Board Observer Agreement; and (iv) other related ancillary agreements.

From March 24, 2022 through August 24, 2022, the Company entered into various privately-negotiated share exchange agreements with holders of its Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, in reliance on Section 3(a)(9) of the Securities Act. Pursuant to those share exchange agreements, the Company has exchanged an aggregate of 806,849 shares of its common stock for 45,900 shares of the Series B Preferred Stock, 38,500 shares of the Series C Preferred Stock, and 1,900 shares of the Series D Preferred Stock, together with all of the holder's rights to receive accrued and unpaid dividends on those shares of Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock. The common stock was issued in reliance on the exemption from registration set forth in Section 3(a)(9) of the Securities Act, as amended, for securities exchanged by an issuer with an existing security holder in a transaction where no commission or other remuneration was be paid or given directly or indirectly for soliciting such an exchange.

On February 26, 2023, the Company entered into amended loan documents to modify the mortgage loan on The Whitehall hotel located in Houston, TX with the lender, International Bank of Commerce. The amendment (i) extends the maturity date to February 26, 2028; (ii) maintains a floating interest rate of New York Prime Rate plus 1.25%; and (iii) subjects the interest rate to a floor rate of 7.50%. The mortgage loan continues to be guaranteed by the Operating Partnership. The amendment also required us to establish a real estate tax reserve as well as a debt service reserve that approximates the aggregate amount of one year's debt service, which was initially established at approximately \$1.5 million.

On March 14, 2023, the Company entered into amended loan documents to modify the mortgage loan on the DoubleTree by Hilton Philadelphia Airport with the lender, TD Bank, N.A. The amendment provided a waiver for non-

compliance with financial covenants for the periods ended September 30 and December 31, 2022, modified the reference rate replacing 1-month LIBOR with SOFR and required us to establish a debt service coverage reserve of \$0.3 million.

On May 4, 2023, affiliates of the Company entered into loan documents to secure a \$10.0 million mortgage loan on the DoubleTree by Hilton Laurel hotel located in Laurel, MD with Citi Real Estate Funding Inc. Pursuant to the loan documents, the mortgage loan: (i) has a principal balance of \$10.0 million; (ii) has a maturity date of May 6, 2028; (iii) carries a fixed interest rate of 7.35%; (iv) requires payments of interest only; (v) cannot be prepaid until the last 4 months of the loan term; and (vi) contains customary representations, warranties, covenants and events of default for a mortgage loan.

## 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.

*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.

*Investment in Hotel Properties* – Investments in hotel properties include investments in operating properties which are recorded at fair value on the acquisition date and allocated to land, property and equipment and identifiable intangible assets. If substantially all

the fair value of the gross assets acquired are concentrated in a single identifiable asset, the asset is not considered a business. When we conclude that an acquisition meets this threshold, acquisition costs will be capitalized as part of our allocation of the purchase price of the acquired asset. We capitalize the costs of significant additions and improvements

that materially upgrade, increase the value of or extend the useful life of the property. These costs may include refurbishment, renovation, and remodeling expenditures, as well as certain direct internal costs related to construction projects. 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.

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.

The Company assesses the carrying value of its investments in hotel properties 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 exceeds 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.

The Company recognized no impairment losses for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** or 2022.

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

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

	As of	As of	As of	As of
	June 30, 2023	June 30, 2022	September 30, 2023	September 30, 2022
Cash and cash equivalents	24,226, \$ 602	23,969, \$ 135	19,198,62 \$ 5	23,011,47 \$ 1
Restricted cash	7,962,8 07	7,383,6 26	10,205,94 7	7,006,371
<b>Cash, cash equivalents and restricted cash at the end of the period</b>	<b>32,189, \$ 409</b>	<b>31,352, \$ 761</b>	<b>29,404,57 \$ 2</b>	<b>30,017,84 \$ 2</b>

*Concentration of Credit Risk* – We hold cash accounts at several institutions in excess of the Federal Deposit Insurance Corporation (the “FDIC”) and National Credit Union Administration (the “NCUA”) 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 or NCUA 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.

*Accounts Receivable* – Accounts receivable consists primarily of hotel guest and banqueting receivables. With ongoing evaluations of our trade receivables, credit customers' risk assessment and limiting credit to only a few larger companies or organizations, our potential for expected credit losses is insignificant. Our revenue is mainly based on cash or credit card sales as of the date of service, with limited trade receivables. 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, 2023, September 30, 2023, and December 31, 2022, were \$218,106, 207,047, and \$241,038, respectively. Amortization expense for the three-month, three and nine-month periods ended June 30, 2023, September 30, 2023, and 2022, totaled \$11,059 and \$12,282, and \$33,991 and \$36,570, respectively.

*Deferred Financing 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 and unsecured notes, net on the consolidated balance sheets. Deferred offering costs are recorded at cost and consist of offering fees and other costs incurred in advance of 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.

*Derivative Instruments* – Our derivative instruments are reflected as assets or liabilities on the consolidated balance sheets 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 interest rate swaps which act as cash flow hedges and are not designated as hedges. We value our interest rate swaps 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 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 swaps are the only assets or liabilities measured at fair value on a recurring basis, there were no non-recurring assets or liabilities for fair value measurements as of **June 30, 2023**, **September 30, 2023** and **December 31, 2022**, respectively):

	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>December 31, 2022</b>						
Interest rate swaps <sup>(1)</sup>	\$ —	\$ 1,308,503	\$ —	\$ —	\$ 1,308,503	\$ —
Mortgage loans <sup>(2)</sup>		(306,300,855)			(306,300,855)	
<b>June 30, 2023</b>						
Interest rate swaps <sup>(1)</sup>	\$ —	\$ 1,193,555	\$ —			
<b>September 30, 2023</b>						

Interest rate										
swap <sup>(1)</sup>					\$	—	\$	1,308,038	\$	—
Mortgage loans	(307,590,1					(303,808,9				
<sup>(2)</sup>	\$	—	\$	72)	\$	—	\$	70)	\$	—

- (1) Interest rate swaps, one of which swaps the **Loan Rate** **loan rate** for a fixed interest rate of 5.237% for the DoubleTree by Hilton Philadelphia Airport mortgage and is valued **only** at **June 30, 2023** and December 31, 2022, and the other which swaps the **Loan Rate** **loan rate** for a fixed rate of approximately 5.576% for the Hotel Alba Tampa mortgage and is valued **only** at **June 30, 2023** **September 30, 2023** and December 31, 2022. Notional amounts of the swaps approximate the declining balance of the loan.
- (2) Mortgage loans, net had a carrying value on our Consolidated Balance Sheets of **\$319,289,449** **317,633,743** and **\$320,482,103** as of **June 30, 2023** **September 30, 2023** and December 31, 2022, respectively.

*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* – Revenue consists of amounts derived from hotel operations, including the sales of rooms, food and beverage, and other ancillary services. Room revenue is recognized over a customer's hotel stay. Revenue from food and beverage and other ancillary services is generated when a customer chooses to purchase goods or services separately from a hotel room and revenue is recognized on these distinct goods and services at the point in time or over the time period that goods or services are provided to the customer. Some contracts for rooms or food and beverage services require an upfront deposit which is recorded as advanced deposits (or contract liabilities) shown on our consolidated balance sheets and recognized once the performance obligations are satisfied.

Certain ancillary services are provided by third parties and the Company assesses whether it is the principal or agent in these arrangements. If the Company is the agent, revenue is recognized based upon the gross commission earned from the third party. If the Company is the principal, the Company recognizes revenue based upon the gross sales price. With respect to the hotel condominium rental programs that the Company operates at the Hyde Resort and Hyde Beach House, the Company has determined that it is an agent and recognizes revenue based on its share of revenue earned under the rental agency agreement.

Certain of the Company's hotels have retail spaces, restaurants or other spaces which the Company leases to third parties. Lease revenue is recognized on a straight-line basis over the life of the lease and included in other operating revenues in the Company's consolidated statements of operations.

The Company collects sales, use, occupancy and similar taxes at its hotels which are presented on a net basis on the consolidated statements of operations.

*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 consolidated statements of operations pursuant to the terms of each lease. Lease revenue was approximately \$0.3 million and \$0.3 million, for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022, totaled approximately \$0.6 million and \$0.7 million, respectively.

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

For the remaining six months ending December 31, 2023	\$	438,535	
For the remaining three months ending December 31, 2023			\$ 202,519
December 31, 2024		813,584	805,327
December 31, 2025		1,308,768	1,297,801
December 31, 2026		722,040	715,115
December 31, 2027		707,495	703,515
December 31, 2028 and thereafter		9,451,505	9,321,103
Total	\$	<u>13,441,927</u>	<u>\$ 13,045,380</u>

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

We account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 either 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. As of June 30, 2023 September 30, 2023, we have determined that it is more-likely-than-not that we will not

not be able to fully utilize our deferred tax assets for future tax consequences, therefore a 100% valuation allowance is required. As of June 30, 2023 September 30, 2023 and December 31, 2022, deferred tax assets each totaled \$0, respectively.

As of June 30, 2023 September 30, 2023 and December 31, 2022, 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, 2023 September 30, 2023, the tax years that remain subject to examination by the major tax jurisdictions to which the Company is subject generally include 2014 through 2022. In addition, as of June 30, 2023 September 30, 2023, the tax years that remain subject to examination by the major tax jurisdictions to which MHI TRS is subject, because of open NOL carryforwards, generally include 2014 through 2022.

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 2022 Long-Term Incentive Plan (the "2022 Plan"), which the Company's stockholders approved in April 2022, permits the grant of stock options, restricted stock, unrestricted stock and service/performance share compensation awards to its employees and directors for up to 2,000,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its stockholders.

Under the 2022 Plan, the Company may issue a variety of service or 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, 2023 September 30, 2023, 451,668 service-based stock awards have been granted, including 272,668 unrestricted shares and 179,000 restricted shares issued to certain executives and its independent directors. Total compensation cost recognized under the 2022 Plan for the three months ended June 30, 2023 September 30, 2023 and 2022 was \$18,888 18,887 and \$0, respectively, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022 was \$244,274 263,161 and \$0, respectively.

The Company's 2013 Long-Term Incentive Plan (the "2013 Plan"), which the Company's stockholders approved in April 2013, permits the grant of stock options, restricted stock, unrestricted stock and service or performance share compensation awards to its employees and directors for up to 750,000 shares of common stock. All future awards will be made under the 2022 Plan.

As of June 30, 2023 September 30, 2023, under the 2013 Plan, the Company has made cumulative service-based stock awards totaling 745,160 shares, including 700,160 unrestricted shares and 45,000 restricted shares issued to certain executives and employees and to its independent directors. All awards have vested except for 45,000 shares issued to certain employees, which will vest over the next two years. The remaining 4,840 shares have been deregistered.

Under the 2013 Plan, the Company was able to 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, 2023** **September 30, 2023**, no performance-based stock awards have been granted. Total compensation cost recognized under the 2013 Plan for the three months ended **June 30, 2023** **September 30, 2023** and 2022 was **\$22,882** **22,883** and **\$82,751** **364,692**, respectively, and for the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was **\$45,765** **68,648** and **\$488,578** **853,271**, 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 a 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. For the three months ended **June 30, 2023** **September 30, 2023** and 2022, the ESOP compensation cost was **\$12,717** **13,992** and **\$14,649** **13,871**, and for the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022 the ESOP compensation cost was **\$24,913** **38,905** and **\$28,803** **42,674**, respectively. 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, including internet advertising, were **\$689,275** **644,111**, and **\$534,734** **559,981** for the three months ended **June 30, 2023** **September 30, 2023** and 2022 and were **\$1,394,979** **2,039,089** and **\$1,157,417** **1,717,399** for the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022, 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. The gain on involuntary conversion of assets 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.

*Use of Estimates* – The preparation of the financial statements in conformity with U.S. 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 June 2016, the FASB issued ASU 2016-13, Financial Instruments -Credit Losses (Topic 326), which replaced the existing "incurred loss" approach with an "expected loss" model for financial instruments measured at amortized cost. For trade and other receivables, the forward-looking "expected loss" model will generally result in the earlier recognition of allowances for losses. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments -Credit Losses, which clarified that operating lease receivables accounted for under ASC 842 are not in the scope of ASU 2016-13. With the adoption of this standard on January 1, 2023, we have determined there is no significant impact on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform – Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides temporary optional expedients and exceptions to the existing guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR"). The update provides guidance in accounting for changes in contracts, hedging relationships, and other transactions as a result of this reference rate reform. The option expedients and exceptions contained within this update, in general, only apply to contract amendments and modifications entered into prior to January 1, 2023. The provisions of this update will most likely affect our financial reporting process relating to modifications of contracts with lenders and the hedging contracts associated with each respective modified borrowing contract. In general, the provision of the update would benefit us by allowing modifications of debt contracts with lenders that fall under the guidance of ASC Topic 740 to be accounted for as a non-substantial modification and not be considered debt extinguishment. As of December 31, 2022, we have not entered into any contract modification as it directly relates to reference rate reform, with the exception of a modification to the mortgages on The Whitehall in Houston, Texas, which changed the reference rate from LIBOR to the New York Prime Rate, and on Hotel Alba Tampa, Tapestry Collection in Tampa, Florida, which changed the reference rate from LIBOR to SOFR. On March 14, 2023, the Company modified the floating-rate mortgage on the DoubleTree by Hilton Philadelphia Airport to change the reference rate from 1-month LIBOR to SOFR. The Company anticipates no additional loan modifications will be required. With the adoption of this standard on January 1, 2023, we have determined there is no significant impact on the Company's consolidated financial statements.

### 3. Investment in Hotel Properties, Net

Investment in hotel properties, net as of **June 30, 2023**, **September 30, 2023** and December 31, 2022 consisted of the following:

	December 31,		September 30,	December 31,
	June 30, 2023	2022	2023	2022
	60,942,75	60,934,85		60,934,85
Land and land improvements	\$ 6	\$ 9	\$ 61,078,390	\$ 9

	415,871,7	412,717,9	416,813,25	412,717,9
Buildings and improvements	41	19	1	19
Right of use assets	4,967,494	5,199,845	4,850,671	5,199,845
Furniture, fixtures and equipment	51,547,91	51,292,10		51,292,10
	6	7	51,500,684	7
	533,329,9	530,144,7	534,242,99	530,144,7
	07	30	6	30
Less: accumulated depreciation and impairment	(173,273,711)	(165,074,005)	(177,215,574)	(165,074,005)
<b>Investment in Hotel Properties, Net</b>	<b>360,056,1</b>	<b>365,070,7</b>	<b>357,027,42</b>	<b>365,070,7</b>
	<b>\$ 96</b>	<b>\$ 25</b>	<b>\$ 2</b>	<b>\$ 25</b>

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#### 4. Debt

*Mortgage Loans, Net.* As of **June 30, 2023** **September 30, 2023** and December 31, 2022, we had approximately **\$319.3** **317.6** million and approximately \$320.5 million of outstanding mortgage debt, respectively. The following table sets forth our mortgage debt obligations on our hotels.

Property	Balance Outstanding as of						Balance Outstanding as of					
	June 30, 2023	December 31, 2022	Pre	Mat	Amo	Inter	September 30, 2023	December 31, 2022	Pre	Mat	Am	Interest
			pay	urit	rtiza	est			pay	urit	ortiz	
			men	y	tion				men	y	atio	
			Pen		Prov				Pen		Pro	
			altie	Dat	visio				altie	Dat	visi	
	2023	2022	s	e	ns	Rate	2023	2022	s	e	ons	Rate
	30,7	31,2		7/1/			30,4	31,2		7/1/		
The DeSoto	39,1	19,0		202	25 y	4.25	95,3	19,0		202	25 y	4.25
(1)	\$ 20	\$ 22	Yes	6	ears	%	\$ 24	\$ 22	Yes	6	ears	%

DoubleTree by Hilton Jacksonville Riverfront	32,0	32,4		7/11			31,9	32,4		7/11		
(2)	69	70	Yes	4	ears	%	68	70	Yes	4	ears	%
DoubleTree by Hilton Laurel (3)	10,0	7,41		5/6/			10,0	7,41		5/6/		
	00,0	2,10	(3)	202	(3)	7.35	00,0	2,10	(3)	202	(3)	7.35
	00	7		8		%	00	7		8		%
						LIBO						SOF
DoubleTree by Hilton Philadelphia Airport (4)	39,0	39,4		10/3		R	38,9	39,4		10/3		R
	44,4	13,6	Non	1/20	30 y	2.27	15,4	13,6	Non	1/20	30 y	2.27
	92	72	e	23	ears	%	88	72	e	23	ears	%
DoubleTree Resort by Hilton Hollywood Beach (5)	52,1	52,7	(5)	10/1			51,8	52,7	(5)	10/1		
	06,9	24,4		/202	30 y	4.913	03,2	24,4		/202	30 y	4.913
	93	75		5	ears	%	64	75		5	ears	%
	39,9	40,4		6/1/			39,7	40,4		6/1/		
Georgian Terrace (6)	72,2	92,6	(6)	202	30 y	4.42	15,1	92,6	(6)	202	30 y	4.42
	65	22		5	ears	%	53	22		5	ears	%
Hotel Alba Tampa, Tapestry Collection by Hilton (7)						SOF						SOF
						R						R
	24,5	24,7		6/30	(7)	plus	24,3	24,7		6/30	(7)	plus
	12,8	56,4	Non	/202		2.75	91,0	56,4	Non	/202		2.75
	00	00	e	5		%	00	00	e	5		%
Hotel Ballast Wilmington, Tapestry Collection by Hilton (8)												
	31,2	31,6		1/1/			30,9	31,6		1/1/		
	32,5	99,7		202	25 y	4.25	95,2	99,7		202	25 y	4.25
	83	75	Yes	7	ears	%	44	75	Yes	7	ears	%
Hyatt Centric Arlington (9)	47,0	47,5		10/1			46,7	47,5		10/1		
	01,8	34,6		/202	30 y	5.25	30,2	34,6		/202	30 y	5.25
	58	06	Yes	8	ears	%	06	06	Yes	8	ears	%



	PRIME						PRIME					
	14,1	14,2		2/26		plus	14,0	14,2		2/26		plus
The	15,0	26,0	Non	/202	25 y	1.25	64,6	26,0	Non	/202	25 y	1.25
Whitehall (10)	\$ 34	67	e	8	ears	%	\$ 62	67	e	8	ears	%
<b>Total</b>												
<b>Mortgage</b>	<b>320,</b>	<b>321,</b>					<b>319,</b>	<b>321,</b>				
<b>Principal</b>	<b>810,</b>	<b>895,</b>					<b>030,</b>	<b>895,</b>				
<b>Balance</b>	<b>\$ 214</b>	<b>\$ 316</b>					<b>\$ 909</b>	<b>\$ 316</b>				
Deferred	(1,5	(1,4					(1,4	(1,4				
financing	75,9	80,7					46,2	80,7				
costs, net	90 )	79 )					21 )	79 )				
Unamortized												
premium on	55,2	67,5					49,0	67,5				
loan	25	66					55	66				
<b>Total</b>	<b>319,</b>	<b>320,</b>					<b>317,</b>	<b>320,</b>				
<b>Mortgage</b>	<b>289,</b>	<b>482,</b>					<b>633,</b>	<b>482,</b>				
<b>Loans, Net</b>	<b>\$ 449</b>	<b>\$ 103</b>					<b>\$ 743</b>	<b>\$ 103</b>				

- (1) The note amortizes on a 25-year schedule after an initial interest-only period of one year and is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.
- (2) The note is subject to a pre-payment penalty until March 2024. Prepayment can be made without penalty thereafter.
- (3) The note requires payments of interest only and cannot be prepaid until the last 4 months of the loan term.
- (4) The note bears a floating interest rate of 1-month LIBOR SOFR plus 2.27%. On August 13, 2018, but we entered into a swap agreement to fix the rate at 5.237% through July 31, 2023. Under Notional amounts under the swap agreement notional amounts approximate approximated the declining balance of the loan. Effective October 29, 2023, we entered into a loan amendment to extend the maturity date to December 29, 2023 and we are responsible for any potential termination fees associated with early termination of to increase the swap agreement. interest rate to SOFR plus 3.50%.
- (5) With limited exception, the note may not be prepaid prior to June 2025.
- (6) With limited exception, the note may not be prepaid prior to February 2025.
- (7) The note bears a floating interest rate of SOFR plus 2.75% subject to a floor rate of 2.75%; with monthly principal payments of \$40,600; the note provides that the mortgage can be extended for two additional periods of one year each, subject to certain conditions. On July 11, 2022, we entered into a swap agreement to fix the rate at 5.576%. The swap agreement reflects notional amounts approximate to the declining balance of the loan and we are responsible for any potential termination fees associated with early termination of the swap agreement.
- (8) The note amortizes on a 25-year schedule after an initial interest-only period of one year and is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.
- (9) Following a 5-year lockout, the note can be prepaid with penalty in years 6-10 and without penalty during the final 4 months of the term.

(10) The note bears a floating interest rate of New York Prime Rate plus 1.25%, with a floor of 7.50%.

The As of September 30, 2023, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans, with the exception of a covenant default under the mortgage on the DoubleTree by Hilton Philadelphia Airport hotel matures in October 2023 and as of June 30, 2023 Airport. At September 30, 2023, the Company we failed to meet certain the financial covenants under that mortgage. We intend the mortgage agreement. On October 29, 2023, we amended the mortgage agreement to work with the lender to receive a waiver and to amend, refinance, or extend the term maturity date for 60 days from October 31, 2023 to December 29, 2023. We anticipate a further modification of the loan prior agreement to include a waiver of non-compliance with the financial covenants as well as other terms and conditions, including a further extension of the maturity in October 2023, date. Additionally, the mortgage on the DoubleTree by Hilton Jacksonville Riverfront matures in July 2024. We intend to refinance that mortgage at the expected level of its indebtedness prior to maturity.

Total future mortgage debt maturities for the remaining six three and twelve-month periods, without respect to any extension of loan maturity or loan modification after June 30, 2023 September 30, 2023, were as follows:

For the remaining six months ended December 31, 2023	\$	42,433,166	
For the remaining three months ended December 31, 2023			\$ 40,624,873
December 31, 2024		38,069,572	38,069,572
December 31, 2025		116,065,168	116,058,765
December 31, 2026		58,588,969	58,588,970
December 31, 2027		1,757,221	1,757,220
December 31, 2028 and thereafter		63,896,118	63,931,509
Total future maturities	\$	320,810,214	\$ 319,030,909

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*PPP Loans.* The Operating Partnership and certain of its subsidiaries have received PPP Loans administered by the U.S. Small Business Administration pursuant to the CARES Act. Each PPP Loan had an initial term of two years, with the ability extend the loan to five years, if not forgiven, and carries an interest rate of 1.00%. Equal payments of principal and interest begin no later than 10 months following origination of the loan and are amortized over the remaining term of the loan. Pursuant to the terms of the CARES Act, the proceeds of each PPP Loan may be used for payroll costs, mortgage interest, rent or utility costs. The promissory note for

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each PPP Loan contains customary events of default relating to, among other things, payment defaults and breach of representations and warranties or of provisions of the relevant promissory note. Under the terms of the CARES Act, each borrower can apply for and be granted forgiveness for all or a portion of the PPP Loan. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds in accordance with the terms of the CARES Act. No assurance is provided that any borrower will obtain forgiveness under any relevant PPP Loan in whole or in part.

On April 16, 2020, our Operating Partnership entered into a promissory note with Village Bank in connection with a PPP Loan and received proceeds of \$333,500. As of **June 30, 2023** **September 30, 2023**, an application for full forgiveness has been filed and is still pending.

On April 28, 2020, we entered into a promissory note and received proceeds of \$9,432,900 under a PPP Loan from Fifth Third Bank, National Association. On December 9, 2022, the Company was notified it had received principal forgiveness in the amount of approximately \$4.6 million and is required to make monthly payments of \$56,809 through July 1, 2025 to extinguish the loan.

On May 6, 2020, we entered into a second promissory note with Fifth Third Bank, National Association and received proceeds of \$952,700 under a PPP Loan. On February 3, 2023, the Company was notified it had received principal forgiveness in the amount of approximately \$268,309 and is required to make monthly payments of \$13,402 through May 6, 2025 to extinguish the loan.

At **June 30, 2023** **September 30, 2023**, the PPP loans had a cumulative balance of approximately **\$1.9** **1.7** million.

## 5. Commitments and Contingencies

*Ground, Building, Parking and 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 fourth of five optional five-year renewal periods expiring October 31, 2026. Rent expense for this operating lease for the three months ended **June 30, 2023** **September 30, 2023** and 2022, each totaled \$20,983, and for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022, each totaled **\$41,966** **62,949**.

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 lease land adjacent to the Hotel Alba Tampa 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. We signed a new agreement in April 2019, which commenced in July 2019, goes for five years and

can be renewed for an additional five years. The new agreement expires in July 2024, requires annual payments of \$2,432, plus tax, and may be renewed for an additional five years. Rent expense for the three months ended June 30, 2023 September 30, 2023 and 2022, each totaled \$651, and for the nine months ended September 30, 2023 and 2022 totaled \$650 1,952 and \$653, and for the six months ended June 30, 2023 and 2022 totaled \$1,301 and \$1,306 1,958.

We lease approximately 8,500 square feet of commercial office space in Williamsburg, Virginia under an agreement with a ten-year term beginning January 1, 2020. The initial annual rent under the agreement was \$218,875, with the rent for each successive annual period increasing by 3.0% over the prior annual period's rent. The annual rent will be offset by a tenant improvement allowance of \$200,000, to be applied against one-half of each monthly rent payment until such time as the tenant improvement allowance is exhausted. Rent expense for the three months ended June 30, 2023 September 30, 2023 and 2022 each totaled \$55,902, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022 each totaled \$111,804 167,706.

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 for five additional renewal periods of 10 years each. The first renewal has been elected and the current maturity is 2035. Rent expense for the three months ended June 30, 2023 September 30, 2023 and 2022, was \$202,392 152,231 and \$163,695 128,415, respectively, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022, totaled \$341,493 493,724 and \$235,709 364,123, respectively.

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We lease the parking garage and poolside cabanas associated with the Hyde Beach House. The parking and cabana lease requires us to make rental payments of \$270,100 per year with increases of 5% every five years and has an initial term that expires in 2034 and which may be extended for four additional renewal periods of 5 years each. Rent expense for the three months ended June 30, 2023 September 30, 2023 and 2022, each totaled \$67,750, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022, each totaled \$135,500 203,250.

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We also lease certain storage facilities, furniture and equipment under agreements expiring between December 2023 and June 2026.

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

For the remaining six months ended December 31, 2023	\$	361,894	
For the remaining three months ended December 31, 2023			\$ 170,299
December 31, 2024		680,783	686,820
December 31, 2025		688,744	696,536

December 31, 2026	675,264	690,843
December 31, 2027	342,503	347,540
December 31, 2028 and thereafter	13,530,663	13,539,483
<b>Total</b>	<b>\$ 16,279,851</b>	<b>\$ 16,131,521</b>

*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, 2023** **September 30, 2023**, our ten wholly-owned hotels, and our two condo-hotel rental programs, operated under management agreements with Our Town (see Note 8). The management agreements expire on March 31, 2035 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, 2023** **September 30, 2023**, seven of our hotels operate under franchise licenses from national hotel companies. Under the franchise agreements, we are required to pay a franchise fee generally between 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 3.0% and 4.0% of gross revenues from the hotels. The franchise agreements currently in force expire between October 2024 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 Jacksonville Riverside, the DoubleTree Resort by Hilton Hollywood Beach, the Hyatt Centric Arlington and the Georgian Terrace an amount equal to one-twelfth (1/12) of the annual real estate taxes due for the properties. Several of our lenders also required us 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 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 and the Hyatt Centric Arlington. We are also required by some lenders to have a debt service reserve that approximates the aggregate amount of one year's debt service, which was initially established at approximately \$1.5 million, in 2022.

*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 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. At **June 30,**

2023 September 30, 2023, the balance on the loan was approximately \$2.6 2.5 million, leaving capacity for additional borrowing of approximately \$2.4 2.5 million under the commitment.

*Litigation* –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.

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## 6. Preferred Stock and Units

*Preferred Stock* - The Company is authorized to issue up to 11,000,000 shares of preferred stock. The following table sets forth our Cumulative Redeemable Perpetual Preferred Stock by series:

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Preferred Stock Series	Per Annu	Liquid	Number of Shares		Quarte	Per Annu	Liquid	Number of Shares		Quarte
	m	ation	Issued and		Distrib	m	ation	Issued and		Distrib
			Outstanding as of		utions			Outstanding as of		utions
			June	Decem				Septe	Decem	
	Rate	Prefer	30,	ber 31,	Per	Rate	Prefer	30,	ber 31,	Per
		ence	2023	2022	Share		ence	2023	2022	Share
Series B			1,							
Preferred Stock	8.		46	1,4	0.	8.	2	1,4	1,4	0.
	0	25	4,	64,	50	0	5.	64,	64,	50
	0	.0	10	10	00	0	0	10	10	00
	0%	\$ 0	0	0	\$ 00	0%	\$ 0	0	0	\$ 00
Series C			1,							
Preferred Stock	7.		34	1,3	0.	7.	2	1,3	1,3	0.
	8	25	6,	46,	49	8	5.	46,	46,	49
	7	.0	11	11	21	7	0	11	11	21
	5%	\$ 0	0	0	\$ 88	5%	\$ 0	0	0	\$ 88

Series D Preferred Stock	8.25%	\$ 0.00	16,310,560	1,156,250	\$ 25.00	8.25%	25.00%	1,156,250	1,156,250	0.00%
	2	25	3,63,51	63,51	51	2	5.	63,	63,	51
Stoc	5	.0	10	10	56	5	0	10	10	56
k	0%	\$ 0	0	0	\$ 25	0%	\$ 0	0	0	\$ 25

The Company is obligated to pay cumulative cash distributions on the preferred stock at rates in the above table per annum of the \$25.00 liquidation preference per share. Holders of the Company's 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 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 January 24, 2023, the Company announced its intention to resume quarterly payments of dividends on its preferred stock. Accordingly, the Company paid previously declared preferred dividends, in the amount of approximately \$2.0 million, on March 15, 2023. The Company also declared preferred dividends in April 2023, and paid approximately \$2.0 million on June 13, 2023. On May 30, 2023, the Company declared a "catch-up" dividend to pay previously undeclared dividends and paid approximately \$2.0 million on July 14, 2023. On July 31, 2023, the Company declared preferred dividends in the amount of approximately \$2.0 million that were paid on September 15, 2023.

The total undeclared and unpaid cash dividends due on the Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock through June 30, 2023 September 30, 2023, are \$8,052,550, \$7,287,931 and \$6,596,958, respectively. Undeclared preferred cumulative dividends are reported on the statements of operations but are not considered payable until declared. As of June 30, 2023 September 30, 2023, the undeclared cumulative preferred dividends were approximately \$21.9 million.

*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. The following table sets forth our Cumulative Redeemable Perpetual Preferred Units by series:

Series B Preferred Units				Series C Preferred Units			
Per Annum	Liquidation	Number of Units Issued and Outstanding as of	Quarterly Distributions	Per Annum	Liquidation	Number of Units Issued and Outstanding as of	Quarterly Distributions

Preferred Units - Series	Rate	Preference	June 30, 2023	December 31, 2022	Per Unit	Rate	Preference	September 30, 2023	December 31, 2022	Per Unit
Series B	8.0		1,4		0.	8.0		1,4	1,4	0.
Preferred Units	0	25	64,	1,4	50	0	25	64,	64,	50
	0	.0	10	64,	00	0	.0	10	10	00
	0%	\$ 0	0	100	\$ 00	0%	\$ 0	0	0	\$ 00
Series C	7.8		1,3		0.	7.8		1,3	1,3	0.
Preferred Units	7	25	46,	1,3	49	7	25	46,	46,	49
	5%	.0	11	46,	21	5%	.0	11	11	21
	\$ 0	0	110	\$ 88		\$ 0	0	0	0	\$ 88
Series D	8.2		1,1		0.	8.2		1,1	1,1	0.
Preferred Units	5	25	63,	1,1	51	5	25	63,	63,	51
	0%	.0	10	63,	56	0%	.0	10	10	56
	\$ 0	0	100	\$ 25		\$ 0	0	0	0	\$ 25

The Operating Partnership pays cumulative cash distributions on the preferred units at rates in the above table per annum of the \$25.00 liquidation preference per unit. The Company, which is the holder of the Operating Partnership's preferred units, is entitled to receive distributions when authorized by the Operating Partnership's general partner out of assets legally available for the payment of distributions. The preferred units are not redeemable by the holder, have no maturity date and are not convertible into any other security of the Operating Partnership or its affiliates.

The total undeclared and unpaid cash dividends due on the Series B Preferred Units, Series C Preferred Units and Series D Preferred Units through **June 30, 2023** **September 30, 2023**, is \$8,052,550, \$7,287,931 and \$6,596,958, respectively. Undeclared preferred cumulative dividends are reported on the statements of operations but are not considered payable until declared. As of **June 30, 2023** **September 30, 2023**, the undeclared cumulative preferred dividends were approximately \$21.9 million.

## 7. Common Stock and Units

*Common Stock* – As of **June 30, 2023** **September 30, 2023**, the Company was authorized to issue up to 69,000,000 shares of common stock, \$0.01 par value per share. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders of the Company's common stock are entitled to receive



distributions when authorized by the Company's board of directors out of assets legally available for the payment of distributions.

The following is a schedule of issuances, since January 1, 2022, of the Company's common stock and related partnership units of the Operating Partnership:

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On January 21, 2022 and February 15, 2022, the Company was issued 175,268 partnership units in the Operating Partnership and awarded an equivalent number of shares of unrestricted stock to its employees.

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On January 21, 2022, the Company was issued 15,000 partnership units in the Operating Partnership and awarded an equivalent number of shares of restricted stock to its independent directors.

On March 24, 2022, we entered into a privately-negotiated share exchange agreement. Pursuant to the share exchange agreement, the Company agreed to exchange 7,000 shares of the Company's Series B Preferred Stock and 3,000 shares of the Company's Series C Preferred Stock, together with all of the rights to receive accrued and unpaid dividends on those preferred shares, for 96,900 shares of the Company's common stock. We closed the transaction and issued the common stock on March 25, 2022.

On March 31, 2022, we entered into a privately-negotiated share exchange agreement. Pursuant to the share exchange agreement, the Company agreed to exchange 5,900 shares of the Company's Series B Preferred Stock and 6,600 shares of the Company's Series C Preferred Stock, together with all of the rights to receive accrued and unpaid dividends on those preferred shares, for 120,875 shares of the Company's common stock. We closed the transaction and issued the common stock on March 31, 2022.

On April 11, 2022, we entered into a privately-negotiated share exchange agreement. Pursuant to the share exchange agreement, the Company agreed to exchange 4,000 shares of the Company's Series B Preferred Stock and 8,000 shares of the Company's Series C Preferred Stock, together with all of the holder's rights to receive accrued and unpaid dividends on those preferred shares, for 116,640 shares of the Company's common stock. We closed the transaction and issued the common stock on April 12, 2022.

On April 19, 2022, we entered into a privately-negotiated share exchange agreement. Pursuant to the share exchange agreement, the Company agreed to exchange 5,000 shares of the Company's Series B Preferred Stock and 10,600 shares of the Company's Series C Preferred Stock, together with all of the holder's rights to receive accrued and unpaid dividends on those preferred shares, for 153,504 shares of the Company's common stock. We closed the transaction and issued the common stock on April 19, 2022.

On May 19, 2022, one holder of partnership units in the Operating Partnership converted 50,000 units for an equivalent number of shares in the Company's common stock.

On May 23, 2022, the Company was issued 37,428 partnership units in the Operating Partnership and awarded an equivalent number of shares of unrestricted stock to its employees.

On July 1, 2022, one holder of partnership units in the Operating Partnership converted 40,687 units for an equivalent number of shares in the Company's common stock.

On July 21, 2022, the Company was issued 167,390 partnership units in the Operating Partnership and awarded an equivalent number of shares of unrestricted stock to its employees.

On August 18, 2022, we entered into a privately-negotiated share exchange agreement. Pursuant to the share exchange agreement, the Company agreed to exchange 11,000 shares of the Company's Series B Preferred Stock, 7,100 shares of the Company's Series C Preferred Stock, and 1,900 shares of the Company's Series D Preferred Stock, together with all of the holder's rights to receive accrued and unpaid dividends on those preferred shares, for 178,800 shares of the Company's common stock. We closed the transaction and issued the common stock on August 18, 2022.

On August 23, 2022, we entered into a privately-negotiated share exchange agreement. Pursuant to the share exchange agreement, the Company agreed to exchange 13,000 shares of the Company's Series B Preferred Stock and 3,200 shares of the Company's Series C Preferred Stock, together with all of the holder's rights to receive accrued and unpaid dividends on those preferred shares, for 140,130 shares of the Company's common stock. We closed the transaction and issued the common stock on August 24, 2022.

On November 1, 2022, one holder of partnership units in the Operating Partnership converted 217,845 units for an equivalent number of shares in the Company's common stock.

On January 12, 2023, the Company issued 15,000 restricted shares of common stock to its independent directors and 64,278 vested shares of common stock to its independent directors and one officer.

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On January 23, 2023, the Company issued 205,000 restricted shares of common stock to certain its officers and employees pursuant to their employment agreements.

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On April 28, 2023, one holder of partnership units in the Operating Partnership converted 75,000 units for an equivalent number of shares in the Company's stock.

On August 18, 2023, one holder of partnership units in the Operating Partnership converted 252,903 units for an equivalent number of shares in the Company's stock.

On August 30, 2023, one holder of partnership units in the Operating Partnership converted 133,099 units for an equivalent number of shares in the Company's stock.

As of June 30, 2023, September 30, 2023 and December 31, 2022, the Company had 19,310,803, 19,696,805 and 18,951,525 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, 2022, there have been no issuances or redemptions, of partnership units in the Operating Partnership other than the issuances of partnership units in the Operating Partnership to the Company described above. In connection with the exchange agreements described in this section, an equivalent number of preferred units held by the Company were exchanged for partnership units in the Operating Partnership.

As of June 30, 2023, September 30, 2023 and December 31, 2022, the total number of Operating Partnership units outstanding was 20,060,991 and 19,776,713, respectively.

As of June 30, 2023, September 30, 2023 and December 31, 2022, the total number of outstanding Operating Partnership units not owned by the Company was 750,188, 364,186 and 825,188, respectively, with a fair market value of approximately \$1.4, 0.6 million and \$1.5 million, respectively, based on the price per share of the common stock on such respective dates.

As of June 30, 2023, September 30, 2023, there were unpaid common dividends and distributions to holders of record as of March 13, 2020, in the amount of approximately \$2.1 million.

## 8. Related Party Transactions

*Our Town Hospitality.* Our Town is currently the management company for each of our ten wholly-owned hotels, as well as the manager of our rental programs at the Hyde Resort & Residences and the Hyde Beach House Resort & Residences. As of June 30, 2023, September 30, 2023, an affiliate of Andrew M. Sims, our Chairman, an affiliate of David R. Folsom, our President and Chief Executive Officer, and Andrew M. Sims Jr., our Vice President - Operations & Investor Relations, beneficially owned approximately 71.0, 71.0%, 7.0%, and 15.0%, respectively, of the total outstanding ownership interests of Our Town. Mr. Sims, Mr. Folsom, and Mr. Sims Jr. serve as directors of Our Town. The following is a summary of the transactions between Our Town and us:

*Accounts Receivable* – At June 30, 2023 September 30, 2023 and December 31, 2022, we were due approximately \$0.3 million and \$0.3 million, respectively, from Our Town.

*Accounts Payable* – At June 30, 2023 September 30, 2023 and December 31, 2022, we owed Our Town approximately \$0.9 0.8 million and \$1.3 million, respectively.

*Management Agreements* – On September 6, 2019, the Company entered into a master agreement with Our Town related to the management of certain of our hotels, as amended on December 13, 2019 (as amended, the “OTH Master Agreement”). On December 13, 2019, and subsequent dates we entered into a series of individual hotel management agreements for the management of our hotels. The hotel management agreements for each of our ten wholly-owned hotels and the two rental programs are referred to as,

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individually an “OTH Hotel Management Agreement” and, together the “OTH Hotel Management Agreements”. The term of the OTH Hotel Management Agreements extends through March 31, 2035, and may be extended for two periods of five years each.

The OTH Master Agreement provides for an adjustment to the fees payable by us under the OTH Hotel Management Agreements in the event the net operating income of Our Town falls below \$250,000 for any calendar year beginning on or after January 1, 2021. The OTH Master Agreement expires on March 31, 2035 but shall be extended beyond 2035 for such additional periods as an OTH Hotel Management Agreement remains in effect. The base management fees for each hotel under management with Our Town is 2.50%. For any new individual hotel management agreements, Our Town 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.

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Base management and administrative fees earned by Our Town for our properties were each totaled approximately \$1.3 million and \$1.0 million, for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and were approximately \$2.4 3.4 million and \$2.1 3.1 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Each OTH Hotel Management Agreement sets an incentive management fee equal to 10.0% of the amount by which gross operating profit, as defined in the relevant 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. Incentive management fees earned for the three months ended June 30, 2023 September 30, 2023 and 2022, were \$(5,015 31,088) and

\$(56,135 42,656), respectively and for the six nine months ended June 30, 2023 September 30, 2023 and 2022, were approximately \$217,943 186,855 and \$314,673 272,017, respectively.

Each OTH Hotel Management Agreement provides for the payment of a termination fee upon the sale of the hotel equal to the lesser of the management fee paid with respect to the prior twelve months or the management fees paid for the number of months prior to the closing date of the hotel sale equal to the number of months remaining on the current term of the management agreement. In 2022, we paid Our Town approximately \$0.3 million in termination fees triggered by the sale of the Sheraton Louisville Riverside and the DoubleTree by Hilton Raleigh Brownstone – University.

*Sublease* – On December 13, 2019, we entered into a sublease agreement with Our Town pursuant to which Our Town subleases 2,245 square feet of office space from Sotherly for a period of 5 years, with a 5-year renewal subject to approval by Sotherly, on terms and conditions similar to the terms of the prime lease entered into by Sotherly and the third-party owner of the property. Lease payments due to the Company were \$309,511 334,473 and \$211,117 235,352, as of June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, respectively.

*Employee Medical Benefits* – We purchase employee medical coverage for eligible employees that are employed by Our Town and who work exclusively for our properties and elect to participate in Our Town's self-insured plan. Gross premiums for employee medical benefits paid by the Company (before offset of employee co-payments) were approximately \$0.9 million and \$0.8 million for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022, were approximately \$1.4 2.3 million and \$1.7 2.6 million, respectively.

*Others.* We employed Ashley S. Kirkland, the daughter of our Chairman, as Corporate Counsel and Compliance Officer until her departure in January 2022 and continue to employ Robert E. Kirkland IV, her husband, as our General Counsel. We also employ Andrew M. Sims Jr., the son of our Chairman, as Vice President – Operations & Investor Relations. Total compensation for all three individuals, including salary and benefits, for the three months ended June 30, 2023 September 30, 2023 and 2022, were \$138,782 134,289 and \$119,926 125,935, respectively, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022, were \$337,445 470,494 and \$252,624 379,898, respectively.

## 9. Retirement Plans

*401(k) Plan* - We maintain a 401(k) plan for qualified employees which is subject to "safe harbor" provisions. Those provisions include a matching employer contribution consisting of 100.0% of the first 3.0% of employee contributions and 50.0% of the next 2.0% of employee contributions. In addition, all employer matching funds vest immediately. Contributions to the plan totaled \$23,538 16,048 and \$28,503 16,500, for the three months ended June 30, 2023 September 30, 2023 and 2022, and for the six nine months ended June 30, 2023 September 30, 2023 and 2022, totaled \$57,547 73,596 and \$51,642 68,143, respectively.

*Employee Stock Ownership Plan* - The Company adopted an Employee Stock Ownership Plan in December 2016, effective January 1, 2016, which 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, and February 28, 2017, the Company’s ESOP had purchased 682,500 shares of the Company’s common stock in the open market at a cost of approximately \$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~~ **are** accounted for at fair value at the date of allocation.

A total of ~~314,424~~ **314,202** shares with a fair value of ~~\$594,261~~ **531,002** remained allocated or committed to be released from the suspense account, as of ~~June 30, 2023~~ **September 30, 2023**. We recognized as compensation cost ~~\$24,913~~ **38,905** and ~~\$28,803~~ **42,674**, during the ~~six~~ **nine** months ended ~~June 30, 2023~~ **September 30, 2023** and 2022, respectively. The remaining ~~351,399~~ **345,010** unallocated shares have an approximate fair value of ~~\$664,144~~ **583,066**, as of ~~June 30, 2023~~ **September 30, 2023**. As of ~~June 30, 2023~~ **September 30, 2023**, the ESOP held a total of ~~301,646~~ **295,035** allocated shares, ~~12,778~~ **19,167** committed-to-be-released shares and ~~351,399~~ **345,010** 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, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
			Number		Number		Number	
	Number	Fair	of	Fair	of	Fair	of	Fair
	of Shares	Value	Shares	Value	Shares	Value	Shares	Value
		570		545		498		545
Allocated	301,	,11	301,	,97	295,	,61	301,	,97
shares	646	\$ 1	646	\$ 9	035	\$ 0	646	\$ 9
Committed to								
be released	12,7	24,			19,1	32,		
shares	78	150	—	—	67	392	—	—

Total Allocated and Committed- to-be- Released		594		545		531		545
	314,	,26	301,	,97	314,	,00	301,	,97
	424	\$ 1	646	\$ 9	202	\$ 2	646	\$ 9
Unallocated shares		664		659		583		659
	351,	,14	364,	,16	345,	,06	364,	,16
	399	4	177	0	010	6	177	0
Total ESOP Shares		1,2		1,2		1,1		1,2
	665,	58,	665,	05,	659,	14,	665,	05,
	823	\$ 405	823	\$ 139	212	\$ 068	823	\$ 139

## 10. Indirect Hotel Operating Expenses

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

	Three Months Ended  June 30, 2023 (unaudited)	Three Months Ended  June 30, 2022 (unaudited)	Six Months Ended  June 30, 2023 (unaudited)	Six Months Ended  June 30, 2022 (unaudited)	Three Months Ended  September 30, 2023 (unaudited)	Three Months Ended  September 30, 2022 (unaudited)	Nine Months Ended  September 30, 2023 (unaudited)	Nine Months Ended  September 30, 2022 (unaudited)
Sales and marketing	4,29 8,00 \$ 1	4,09 6,42 \$ 9	8,50 7,77 \$ 1	7,66 0,39 \$ 1	3,81 5,34 \$ 9	3,72 9,86 \$ 7	12,3 23,1 \$ 21	11,3 90,2 \$ 58
General and administrative	3,90 8,02 3	3,55 0,09 6	7,37 1,82 3	6,79 0,67 5	3,63 8,35 4	3,39 6,24 7	11,0 10,1 77	10,1 86,9 22
Repairs and maintenance	2,10 2,52 3	2,34 7,21 9	4,32 2,09 1	4,46 2,54 6	2,16 4,00 3	2,05 7,29 8	6,48 6,09 4	6,51 9,84 5

	1,40	1,42	2,73	2,74	1,69	1,56	4,42	4,30
	0,83	6,90	3,54	2,24	1,93	6,21	5,47	8,46
Utilities	3	0	8	9	1	6	9	5
	1,30	1,40	2,30	3,03	1,43		3,73	3,97
Property taxes	3,11	6,13	2,64	3,07	6,74	939,	9,38	3,02
	9	8	0	7	2	951	1	7
Management fees,	1,25	1,10	2,61	2,37			3,58	3,32
including incentive	1,83	2,58	0,87	7,34	973,	949,	4,72	7,26
	5	1	5	1	848	926	3	7
	1,24	1,25	2,31	2,16			3,29	3,12
Franchise fees	6,36	7,74	7,88	5,77	972,	960,	0,49	6,02
	0	0	0	5	610	246	0	1
	1,71	1,04	2,66	1,99	1,51	1,12	4,17	3,12
Insurance	5,72	6,87	3,38	3,15	1,22	8,09	4,60	1,24
	1	5	1	2	2	0	3	1
Information and telecommunications			1,86	1,78			2,79	2,59
	945,	859,	8,35	8,80	931,	809,	9,92	8,39
	572	699	0	5	573	593	3	9
	290,	243,	511,	386,	236,	194,	748,	581,
Other	349	908	554	935	535	504	089	439
<b>Total indirect hotel operating expenses</b>	<b>18,4</b>	<b>17,3</b>	<b>35,2</b>	<b>33,4</b>	<b>17,3</b>	<b>15,7</b>	<b>52,5</b>	<b>49,1</b>
	<b>62,3</b>	<b>37,5</b>	<b>09,9</b>	<b>00,9</b>	<b>72,1</b>	<b>31,9</b>	<b>82,0</b>	<b>32,8</b>
	<b>\$ 36</b>	<b>\$ 85</b>	<b>\$ 13</b>	<b>\$ 46</b>	<b>\$ 67</b>	<b>\$ 38</b>	<b>\$ 80</b>	<b>\$ 84</b>

## 11. Income Taxes

The components of the income tax provision for the three and six months ended June 30, 2023 September 30, 2023 and 2022 are as follows:

Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended



	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	Septemb er 30, 2023	Septemb er 30, 2022	Septemb er 30, 2023	Septemb er 30, 2022
	(unaudite d)	(unaudite d)	(unaudit ed)	(unaudit ed)	(unaudite d)	(unaudite d)	(unaudite d)	(unaudite d)
Current:								
Federal	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
State	16,5 37	11,6 15	31, 719	21, 269	(354 ,398)	12,4 74	(322 ,679)	33,7 44
	16,5 37	11,6 15	31, 719	21, 269	(354 ,398)	12,4 74	(322 ,679)	33,7 44
Deferred:								
					(1,1		(1,0	(57
Federal	357, 776	478, 698	97, 824	(27, 658)	53,4 52)	(544 ,356)	55,6 28)	2,01 4)
State	14,2 39	(97, 195)	,46 9	(19, 833)	(261 ,180)	(62, 819)	(115 ,711)	(82, 652)
			243		(1,4		(1,1	(65
Subtotal s	372, 015	381, 503	,29 3	(47, 491)	14,6 32)	(607 ,175)	71,3 39)	4,66 6)
Change in deferred tax valuation allowanc e			(24 3,2 93)	47, 491	1,41 4,63 2		1,17 1,33 9	
	—	—	—	—	—	—	—	—
Income tax provision	16,5 \$ 37	11,6 \$ 15	31, \$ 719	21, \$ 269				
Income tax (benefit) provision					(354 \$ ,398)	12,4 \$ 74	(322 \$ ,679)	33,7 \$ 44

	Three Months Ended  June 30, 2023 (unaudited)	Three Months Ended  June 30, 2022 (unaudited)	Six Months Ended  June 30, 2023 (unaudited)	Six Months Ended  June 30, 2022 (unaudited)	Three Months Ended  September 30, 2023 (unaudited)	Three Months Ended  September 30, 2022 (unaudited)	Nine Months Ended  September 30, 2023 (unaudited)	Nine Months Ended  September 30, 2022 (unaudited)
Statutory federal income tax provision (benefit)	1,107,584	5,799,565	1,402,150	5,631,294	(508,247)		893,903	6,048,152
Federal tax impact of REIT election	(539,100)	(36,788)	(2,886)	(5,489,574)	(42,169)	(82,599)	(1,264,579)	(6,315,568)
Statutory federal income tax provision at TRS	568,484	562,777	,264	,720				
Statutory federal income tax (benefit) provision at TRS					(92,994)	(40,913)	(37,067)	(26,741)
Federal impact of PPP loan forgiveness	—	—	(56,470)	—	—	—	(56,470)	—
State income tax provision (benefit), net of federal provision (benefit)	(179,932)	(169,659)	(22,782)	(16,742)				

State income tax benefit, net of federal provision (benefit)					(83 9,09 0)	(18 5,56 4)	(1,0 66, 872)	(35 3,5 06)
Change in valuation allowance	(372 ,015)	(381 ,503)	(24 3,2 93)	47, 491	1,41 4,63 2		1,1 71, 339	654 ,66 6
Income tax provision	<u>16,5</u> <u>\$ 37</u>	<u>11,6</u> <u>\$ 15</u>	<u>31,</u> <u>\$ 719</u>	<u>21,</u> <u>\$ 269</u>				
Income tax (benefit) provision					(35 4,39 \$ 8)	(32 12,4 \$ 74	(32 2,6 \$ 79)	(33, 33, \$ 744

## 12. 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 or loss would also be added back to net income or loss. The shares of the Series B Preferred Stock, Series C Preferred Stock and Series D 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 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 unallocated ESOP shares have been excluded in the weighted average for the basic and diluted earnings per share computation. The computation of basic net income (loss) per share is presented below:

30

Three Month s Ended	Three Month s Ended	Six Month s Ended	Six Month s Ended	Three Month s Ended	Three Month s Ended	Nine Month s Ended	Nine Month s Ended
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	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	Septe mber 30, 2023	Septe mber 30, 2022	Septe mber 30, 2023	Septe mber 30, 2022
	(unaudi ted)	(unaudi ted)	(unaudi ted)	(unaudi ted)	(unaud ited)	(unaud ited)	(unaud ited)	(unaud ited)
<b>Numerator</b>								
	5,2	27,	6,6	26,				
	\$ 57,	\$ 60	\$ 45,	\$ 79				
	67	5,3	18	4,4				
Net income	0	59	5	15				
Less: Net income allocated to participating share awards	(71 ,28)	(93 ,32)	(81 ,22)	(89 ,71)				
	2	9	5	3				
Net income attributable to non-controlling interest	(13 0,7) 98	(1, 52) 9,9 40	(10 5,8) 38	(1, 36) 8,3 19				
					(2, 06 \$ 5,8)	1,9 72, \$ 56	4,5 79, \$ 35	28, 76 \$ 6,9
Net (loss) income					26	3	9	78
Less: Net loss (income) allocated to participating share awards					28, 00 8	(6, 59) 7	(5 8,0) 32	(9 4,5) 22
Net loss (income) attributable to non-controlling interest					15 6,5 58	51, 09 4	50, 72 0	(1, 31) 7,2 25
Undeclared distributions to preferred stockholders	(1, 99 4,3 13	(1, 88 9,4 70	(3, 98 8,6 25	(3, 82 6,0 86	(1, 99 4,3 13	(1, 81 3,8 20	(5, 98 2,9 38	(5, 63 9,9 06

Gain on extinguishment of preferred stock	—	83,500	—	16,175	—	(97,157)	—	64,518
<b>Net income attributable to common stockholders for EPS computation</b>	<b>3,061,277</b>	<b>24,176,120</b>	<b>2,469,497</b>	<b>21,671,972</b>				
<b>Net (loss) income attributable to common stockholders for EPS computation</b>					<b>(3,875,573)</b>	<b>10,608,833</b>	<b>(1,410,891)</b>	<b>21,779,433</b>
<b>Denominator</b>								
Weighted average number common shares outstanding for basic EPS computation	18,712,452	17,760,138	18,658,387	17,436,975	18,906,851	18,045,365	18,742,198	17,598,153
Effect of dilutive participating securities:								
Unvested restricted shares	2,646	65,000	— <sup>(1)</sup>	63,343	— <sup>(1)</sup>	65,000	— <sup>(1)</sup>	63,901
Stock compensation awards unissued	—	58,519	—	10,863	— <sup>(1)</sup>	37,912	— <sup>(1)</sup>	12,020
Unearned ESOP shares	—	41,876	—	42,304	— <sup>(1)</sup>	41,189	— <sup>(1)</sup>	41,871

Weighted average number common and common equivalent shares outstanding for diluted EPS computation	18,71	18,30	18,65	18,03	18,90	18,55	18,74	18,20
	5,098	4,508	8,538	1,381	6,851	9,666	2,219	9,766
Basic net income per common share:								
Undistributed income	\$ 0.16	\$ 1.36	\$ 0.13	\$ 1.24				
Basic net (loss) income per common share:								
Undistributed (loss) income					\$ (0.20)	\$ 0.01	\$ (0.08)	\$ 1.24
<b>Total basic</b>	<b>\$ 0.16</b>	<b>\$ 1.36</b>	<b>\$ 0.13</b>	<b>\$ 1.24</b>	<b>\$ (0.20)</b>	<b>\$ 0.01</b>	<b>\$ (0.08)</b>	<b>\$ 1.24</b>
Diluted net income per common share:								
Undistributed income	\$ 0.16	\$ 1.32	\$ 0.13	\$ 1.20				
Allocation of participating share awards	—	—	—	—				
Diluted net (loss) income per common share:								
Undistributed (loss) income					\$ (0.20)	\$ 0.01	\$ (0.08)	\$ 1.20
<b>Total diluted</b>	<b>\$ 0.16</b>	<b>\$ 1.32</b>	<b>\$ 0.13</b>	<b>\$ 1.20</b>	<b>\$ (0.20)</b>	<b>\$ 0.01</b>	<b>\$ (0.08)</b>	<b>\$ 1.20</b>

(1) Anti-dilutive, therefore not included.

The accounting for unvested share-based payment awards included in the calculation of earnings per share changed. Share-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are now participating securities and included in the computation of both basic and diluted earnings per share. Our grants of restricted stock awards to our employees

and directors are considered participating securities, and we have prepared our earnings per share calculations to include outstanding unvested restricted stock awards in the basic and diluted weighted average shares outstanding calculation.

*Income (Loss) Per Unit* – The computation of basic net income (loss) per unit is presented below:

	Three Months Ended  June 30, 2023  (unaudit ed)	Three Months Ended  June 30, 2022  (unaudit ed)	Six Month s Ended  June 30, 2023  (unaudi ted)	Six Month s Ended  June 30, 2022  (unaudi ted)	Three Months Ended  Septem ber 30, 2023  (unaudit ed)	Three Month s Ended  Septe mber 30, 2022  (unaudi ted)	Nine Month s Ended  Septe mber 30, 2023  (unaudi ted)	Nine Month s Ended  Septe mber 30, 2022  (unaudi ted)
<b>Numerator</b>								
	5,2	27,	6,6	26,				
	\$ 57,	\$ 605	\$ 45,	\$ 79				
	670	,35	18	4,4				
Net income		9	5	15				
Less: Net								
income allocated	(71,)	(93,)	(81	(89				
to participating	282	329	,22)	,71)				
unit awards			5	3				
					(2,0	1,9	4,5	28,
					\$ 65,)	\$ 72,	\$ 79,	\$ 76
					826	56	35	6,9
Net (loss) income						3	9	78

Less: Net loss (income) allocated to participating unit awards					28, 008	(6, 59) 7	(58 ,03) 2	(94 ,52) 2
Undeclared distributions to preferred unitholders	(1,9 94,) 313	(1,8 89,) 470	(3, 98) 8,6 25	(3, 82) 6,0 86	(1,9 94,) 313	(1, 81) 3,8 20	(5, 98) 2,9 38	(5, 63) 9,9 06
Gain on extinguishment of preferred units	—	83, 500	—	16 1,6 75	—	(97 ,15) 7	—	64, 51 8
<b>Net income attributable to unitholders for EPU computation</b>	<b>3,1 \$ 92, 075</b>	<b>25, 706 \$ ,06 0</b>	<b>2,5 75, \$ 33 5</b>	<b>23, 04 \$ 0,2 91</b>				
<b>Net (loss) income attributable to unitholders for EPU computation</b>					<b>(4,0 \$ 32,) 131</b>	<b>54, \$ 98 9</b>	<b>(1, 46 \$ 1,6 11</b>	<b>23, 09 \$ 7,0 68</b>
<b>Denominator</b>								
Weighted average number of units outstanding for basic EPU computation	19, 810 ,99 1	19, 291 ,08 3	19, 80 6,1 73	18, 98 1,7 82	19, 810 ,99 1	19, 50 1,3 10	19, 80 7,7 97	19, 11 6,2 24
Effect of dilutive participating securities:								



Unvested restricted units	2,646	58,519	— <sup>(1)</sup>	108,633	— <sup>(1)</sup>	65,000	— <sup>(1)</sup>	62,606
Unit compensation awards unissued	—	65,000	—	63,343	— <sup>(1)</sup>	37,912	— <sup>(1)</sup>	12,902
Weighted average number of equivalent units outstanding for diluted EPU computation	19,813,637	19,414,602	19,806,173	19,815,358	19,810,991	19,604,222	19,807,797	19,830,783
Basic net income per unit:								
Undistributed income	\$ 0.16	\$ 1.33	\$ 0.13	\$ 1.21				
Basic net (loss) income per unit:								
Undistributed (loss) income					\$ (0.20)	\$ -	\$ (0.07)	\$ 1.21
<b>Total basic</b>	<b>\$ 0.16</b>	<b>\$ 1.33</b>	<b>\$ 0.13</b>	<b>\$ 1.21</b>	<b>\$ (0.20)</b>	<b>\$ -</b>	<b>\$ (0.07)</b>	<b>\$ 1.21</b>
Diluted net income per unit:								
Undistributed income	\$ 0.16	\$ 1.32	\$ 0.13	\$ 1.20				
Allocation of participating unit awards	—	—	—	—				
Diluted net (loss) income per unit:								
Undistributed (loss) income					\$ (0.20)	\$ -	\$ (0.07)	\$ 1.20

<b>Total diluted</b>	<b>\$ 0.1</b>	<b>\$ 1.3</b>	<b>\$ 0.1</b>	<b>\$ 1.2</b>	<b>\$ (0.2</b>	<b>\$ -</b>	<b>\$ (0.</b>	<b>\$ 1.2</b>
	<b>6</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>0)</b>		<b>07)</b>	<b>0</b>

(1) Anti-dilutive, therefore not included.

### 13. Subsequent Events

On July 14, 2023, 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 30, 2023.

On July 14, 2023, 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 30, 2023.

On July 14, 2023, we paid a quarterly distribution of \$0.515625 per share (and unit) of Series D Preferred Stock (and Series D Preferred Units) to holders of the Series D Preferred Stock (and Series D Preferred Units) of record as of June 30, 2023.

On July 31, 2023 October 30, 2023, 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 August 31, 2023 November 30, 2023, to be paid on September 15, 2023 December 15, 2023.

On July 31, 2023 October 30, 2023, 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 August 31, 2023 November 30, 2023, to be paid on September 15, 2023 December 15, 2023.

On July 31, 2023 October 30, 2023, we authorized payment of a quarterly distribution of \$0.515625 per share (and unit) of Series D Preferred Stock (and Series D Preferred Units) to holders of the Series D Preferred Stock (and Series D Preferred Units) of record as of August 31, 2023 November 30, 2023, to be paid on September 15, 2023 December 15, 2023.

Effective as of October 29, 2023, we entered into a loan amendment to extend the maturity date on the existing mortgage on the DoubleTree by Hilton Philadelphia Airport hotel with the existing lender, TD Bank, N.A. Pursuant to the loan amendment: (i) the maturity date was extended to December 29, 2023 and (ii) the interest rate was increased to SOFR plus 3.50%. Concurrent with the execution of the loan amendment, the Company also received a waiver of non-compliance with financial covenants for the period ended June 30, 2023, conditioned upon the increase in a reserve account maintained by the lender of \$450,000, which the Company made. The loan continues to be guaranteed by the Operating Partnership. We are in negotiations with the lender to further modify and extend the mortgage loan.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Cautionary Statement Regarding 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 the Company's future operations, performance and 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 the level of our indebtedness and our ability to meet covenants in our debt agreements, and, necessary, to refinance or seek an extension of the maturity of such indebtedness or further modification of such debt agreements; agreements on similar or more favorable terms;
- risks associated with adverse weather conditions, including hurricanes;
- impacts on the travel industry from pandemic diseases, including COVID-19;
- the availability and terms of financing and capital and the general volatility of the securities markets;
- 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 real estate investment trusts ("REITs");
- the Company's ability to maintain its qualification as a REIT and the limitations imposed on the Company's business due to such maintenance; and
- our ability to maintain adequate insurance coverage.

Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the results or conditions described in such statements or the objectives and plans of the Company will be achieved.

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, 10-K for the year ended December 31, 2022.

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.

## Overview

Sotherly Hotels Inc. is a self-managed and self-administered lodging REIT incorporated in Maryland in August 2004 and focused on the acquisition, renovation, up-branding and repositioning of upscale to upper-upscale full-service hotels in

the southern United States. Sotherly may also opportunistically acquire hotels throughout the 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 ten full-service, primarily upscale and upper-upscale hotels, comprising 2,786 rooms, as well as interests in two condominium hotels and their associated rental programs. The Company owns hotels that operate under well-known brands such as DoubleTree by Hilton, Tapestry Collection by Hilton, and Hyatt Centric, as well as independent hotels. We sometimes refer to our independent and soft-branded properties as our collection of boutique hotels. As of **June 30, 2023** **September 30, 2023**, our portfolio consisted of the following hotel properties:

Property	Number				Chain/Class	Number				Chain/Class
	of Rooms	Location	Date of Acquisition	Designation		of Rooms	Location	Date of Acquisition	Designation	
Wholly-owned Hotels										
The DeSoto	246	Savannah, GA	December 21, 2004	Upper Upscale <sup>(1)</sup>		246	Savannah, GA	December 21, 2004	Upper Upscale <sup>(1)</sup>	
DoubleTree by Hilton Jacksonville Riverfront	293	Jacksonville, FL	July 22, 2005	Upscale		293	Jacksonville, FL	July 22, 2005	Upscale	
DoubleTree by Hilton Laurel	208	Laurel, MD	December 21, 2004	Upscale		208	Laurel, MD	December 21, 2004	Upscale	
DoubleTree by Hilton Philadelphia Airport	331	Philadelphia, PA	December 21, 2004	Upscale		331	Philadelphia, PA	December 21, 2004	Upscale	
DoubleTree Resort by Hilton Hollywood Beach	311	Hollywood, FL	August 9, 2007	Upscale		311	Hollywood, FL	August 9, 2007	Upscale	

Georgian Terrace	326	Atlanta, GA	March 27, 2014	Upper Upscale <sup>(1)</sup>	326	Atlanta, GA	March 27, 2014	Upper Upscale <sup>(1)</sup>
Hotel Alba Tampa, Tapestry Collection by Hilton	222	Tampa, FL	October 29, 2007	Upscale	222	Tampa, FL	October 29, 2007	Upscale
Hotel Ballast Wilmington, Tapestry Collection by Hilton	272	Wilmington, NC	December 21, 2004	Upscale	272	Wilmington, NC	December 21, 2004	Upscale
Hyatt Centric Arlington	318	Arlington, VA	March 1, 2018	Upper Upscale	318	Arlington, VA	March 1, 2018	Upper Upscale
The Whitehall	259	Houston, TX	November 13, 2013	Upper Upscale <sup>(1)</sup>	259	Houston, TX	November 13, 2013	Upper Upscale <sup>(1)</sup>
Hotel Rooms	2,78				2,78			
Subtotal	6				6			
Condominium Hotels								
Hyde Resort & Residences	71	<sup>(2)</sup> Hollywood, FL	January 30, 2017	Luxury <sup>(1)</sup>	71	<sup>(2)</sup> Hollywood, FL	January 30, 2017	Luxury <sup>(1)</sup>
Hyde Beach House Resort & Residences	78	<sup>(2)</sup> Hollywood, FL	September 27, 2019	Luxury <sup>(1)</sup>	76	<sup>(2)</sup> Hollywood, FL	September 27, 2019	Luxury <sup>(1)</sup>
Total Hotel & Participating Condominium Hotel Rooms	2,935				2,933			

(1) Operated as an independent hotel.

(2) Reflects only those condominium units that were participating in the rental program, as of **June 30, 2023** **September 30, 2023**. At any given time, some portion of the units participating in our rental program may be occupied by the t

owner(s) and unavailable for rental to hotel guests. We sometimes refer to each participating condominium unit as “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 96.3% 98.2% interest in our Operating Partnership, as of the date of this report, 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 MHI TRS Entities, which are indirect wholly-owned subsidiaries of the Operating Partnership. Our MHI TRS Entities then engage an eligible independent hotel management company to operate the hotels under a management

agreement. Our MHI TRS Entities have engaged Our Town to manage our hotels. Our MHI TRS Entities, and their parent, MHI Hospitality TRS Holding, Inc., are consolidated into each of 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 room

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 and the Hyde Beach House Resort & Residences that participate in our rental programs 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 nine months ended June 30, 2023 September 30, 2023 and 2022, respectively, for the Company’s wholly-owned properties (“actual” portfolio metrics). Accordingly, the actual data does not include the participating condominium hotel rooms of the Hyde Resort & Residences and the Hyde Beach House Resort & Residences. The ten wholly-owned properties in the portfolio that were under the Company’s control during the three and six nine months ended June 30, 2023 September 30, 2023 and the corresponding period in 2022 are considered same-store properties (“same-store” portfolio metrics). Accordingly, the same-store data does not reflect the performance of the Sheraton Louisville Riverside which was sold in February 2022, or the DoubleTree by Hilton Raleigh-Brownstone University which was sold in June 2022. The composite portfolio metrics represent the Company’s wholly-owned properties and the participating condominium hotel rooms at the Hyde Resort & Residences and the Hyde Beach House Resort & Residences, during the three and six nine months ended June 30, 2023 September 30, 2023 and the corresponding period in 2022. The same-store (composite) portfolio metrics includes all properties with the exceptions of the Sheraton Louisville Riverside and the

Riverside and the DoubleTree by Hilton Raleigh-Brownstone University, during the three and six nine months ended June 30, 2023 September 30, 2023, and the corresponding period in 2022.

Actual Portfolio Metrics	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended	Three Months Ended	Three Months Ended	Nine Month Ended	Nine Month Ended
	June	June	June	June	Septe	Septe	Septe	Septe
	30,	30,	30,	30,	mber	mber	mber	mber
	2023	2022	2023	2022	30,	30,	30,	30,
	2023	2022	2023	2022	2023	2022	2023	2022



Occu pancy %	70. 6 %	68. 8 %	65. 6 %	61. 1 %	62. 4 %	63. 0 %	64. 5 %	61. 7 %
	18	17	18	17	16	16	17	17
	5.8	9.1	6.4	4.2	4.1	1.7	9.1	0.1
ADR	\$ 2	\$ 8	\$ 5	\$ 2	\$ 4	\$ 7	\$ 8	\$ 3
	13	12	12	10	10	10	11	10
RevP AR	1.1 \$ 6	3.2 \$ 9	2.2 \$ 7	6.4 \$ 9	2.4 \$ 6	1.8 \$ 7	5.5 \$ 9	5.0 \$ 0
Same- Store Portfoli o Metrics								
Occu pancy %	70. 6 %	69. 5 %	65. 6 %	62. 0 %	62. 4 %	63. 0 %	64. 5 %	62. 3 %
	18	17	18	17	16	16	17	17
	5.8	9.7	6.4	6.2	4.1	1.7	9.1	1.3
ADR	\$ 2	\$ 5	\$ 5	\$ 5	\$ 4	\$ 7	\$ 8	\$ 2
	13	12	12	10	10	10	11	10
RevP AR	1.1 \$ 6	4.9 \$ 7	2.2 \$ 7	9.2 \$ 2	2.4 \$ 6	1.8 \$ 7	5.5 \$ 9	6.7 \$ 4
Compo site Portfoli o Metrics								
Occu pancy %	69. 4 %	68. 0 %	64. 9 %	60. 8 %	61. 5 %	62. 0 %	63. 8 %	61. 2 %
	19	18	19	18	16	16	18	18
	0.1	9.0	3.3	8.2	7.1	8.1	4.8	1.7
ADR	\$ 5	\$ 9	\$ 5	\$ 5	\$ 0	\$ 8	\$ 3	\$ 2
	13	12	12	11	10	10	11	11
RevP AR	1.9 \$ 4	8.6 \$ 3	5.5 \$ 3	4.4 \$ 6	2.8 \$ 2	4.1 \$ 9	7.8 \$ 9	1.1 \$ 6

Same-Store (Composite) Portfolio Metrics								
Occupancy %	69.4 %	68.7 %	64.9 %	61.6 %	61.5 %	62.0 %	63.8 %	61.7 %
ADR	19.01	18.99	19.33	19.08	16.71	16.81	18.48	18.32
RevPAR	\$ 5.13	\$ 5.13	\$ 5.12	\$ 5.11	\$ 5.10	\$ 5.10	\$ 5.11	\$ 5.11
AR	\$ 4.19	\$ 4.04	\$ 3.55	\$ 3.75	\$ 2.28	\$ 2.41	\$ 2.78	\$ 3.03

**Comparison of the Three Months Ended June 30, 2023 September 30, 2023, to the Three Months Ended June 30, 2022 September 30, 2022**

**Revenue.** Total revenue for the three months ended June 30, 2023 September 30, 2023, increased decreased slightly by 0.1%, and was essentially flat at approximately \$1.8 million, or 3.9%, to approximately \$49.0 million \$39.2 million compared to total revenue of approximately \$47.2 million \$39.2 million for the three months ended June 30, 2022 September 30, 2022. Increase Increases in total revenue at seven four of our wholly-owned properties, offset by decreases at five eight of our other properties, resulted in an a small decrease in aggregate increase of approximately \$2.8 million. The increase was also offset by a decrease of approximately \$1.0 million related to revenue for the disposition of the DoubleTree by Hilton Raleigh Brownstone University in June 2022. period.

Room revenue increased approximately \$0.7 million \$0.2 million, or 2.2% 0.6%, to approximately \$33.2 million \$26.3 million for the three months ended June 30, 2023 September 30, 2023, compared to room revenue of approximately \$32.5 million \$26.1 million for the three months ended June 30, 2022 September 30, 2022. RevPAR for the three month period increased 6.4% 0.6% from \$123.29 \$101.87 in 2022, to \$131.16 \$102.46 in 2023, driven by a 1.8% increase 0.6% decrease in occupancy and a 3.7% 1.5% increase in ADR offset by a 4.0% decrease in rooms available for sale as a result of the sale of the DoubleTree by Hilton Raleigh Brownstone – University in June 2022. ADR. Increases in room revenue at seven four of our wholly-owned properties were driven by increases in small group and corporate business travel demand and offset room revenue decreases at the remaining three six wholly-owned properties.

Food and beverage revenues increased approximately \$1.8 million \$0.7 million, or 23.2% 10.4%, to approximately \$9.5 million \$7.5 million for the three months ended June 30, 2023 September 30, 2023 compared to food and beverage revenues of approximately \$7.7 million \$6.8 million for the three months ended June 30, 2022 September 30, 2022.

Increases in banqueting and catering for small groups and meetings as well as increases in demand at our restaurant outlets at eight of our wholly-owned properties offset decreases at the remaining two wholly-owned properties.

Revenue from other operating departments decreased approximately \$0.6 million \$0.9 million, or 9.4% 14.1%, to approximately \$6.3 million \$5.4 million for the three months ended June 30, 2023 September 30, 2023 compared to revenue from other operating departments of approximately \$6.9 million \$6.3 million for the three months ended June 30, 2022 September 30, 2022. Most of the decrease related to lower net revenue related to the rental programs we manage for participating unit owners at the condominium hotel properties in Hollywood, Florida.

*Hotel Operating Expenses.* Hotel operating expenses, which consist of room expenses, food and beverage expenses, other direct expenses, indirect expenses and management fees, increased approximately \$1.8 million \$2.2 million, or 5.5% 7.6%, to approximately \$34.2 million \$31.6 million for the three months ended June 30, 2023 September 30, 2023, compared to total hotel operating expenses of approximately \$32.4 million \$29.4 million for the three months ended June 30, 2022 September 30, 2022. The increase in hotel operating expenses for the three months ended June 30, 2023 September 30, 2023, resulted from an aggregate increase in total ten of our hotel operating expenses of properties by approximately \$3.2 million \$3.0 million, offset by decreases totaling approximately \$0.6 million \$0.8 million from four two of our properties and additionally approximately \$0.8 million as a result from the sale of the DoubleTree by Hilton Raleigh Brownstone University in June 2022. properties. This increase in hotel operating expenses was directly related to the increase increases in revenue.

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food and beverage revenues at a number of our hotels and higher indirect expenses as described below.

Rooms expense for the three months ended June 30, 2023 September 30, 2023 decreased by approximately 0.2 million \$0.1 million, or 2.6% 1.6%, to approximately \$7.0 million \$6.4 million, compared to rooms expense for the three months ended June 30, 2022 September 30, 2022 of approximately \$7.2 million \$6.5 million. The decrease in rooms expense for the three months ended June 30, 2023 September 30, 2023, resulted mainly from the sale the DoubleTree an aggregate decrease in four

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of our hotel properties by Hilton Raleigh Brownstone University in June 2022. approximately \$0.4 million, offset by increases totaling approximately \$0.3 million from six of our properties.

Food and beverage expenses for the three months ended June 30, 2023 September 30, 2023 increased approximately \$1.1 million \$0.9 million, or 21.6% 18.5%, to approximately \$6.4 million \$5.6 million, compared to food and beverage expenses of approximately \$5.3 million \$4.7 million, for the three months ended June 30, 2022 September 30, 2022. The net increase in food and beverage expenses for the three months ended June 30, 2023 September 30, 2023, resulted from an aggregate increase of approximately \$1.2 million \$0.9 million from eight nine of our properties, with a slight

offset decrease by a decrease one of approximately \$0.1 million as a result of the sale of the DoubleTree by Hilton Raleigh Brownstone University in June 2022. our properties. The increase was directly related to the increase in food and beverage revenue.

Expenses from other operating departments for the three months ended June 30, 2023 September 30, 2023, decreased approximately \$0.3 million \$0.2 million or 11.3% 7.9%, to approximately \$2.3 million \$2.2 million, compared to other operating departments expense for the three months ended June 30, 2022 September 30, 2022 of approximately \$2.6 million \$2.4 million. The decrease in other operating departments expense for the three months ended June 30, 2023 September 30, 2023, resulted from six seven of our properties.

Indirect expenses at our wholly-owned properties for the three months ended June 30, 2023 September 30, 2023 increased approximately \$1.1 million \$1.6 million, or 6.5% 10.4%, to approximately \$18.4 million \$17.3 million, compared to indirect expenses of approximately \$17.3 million \$15.7 million for the three months ended June 30, 2022 September 30, 2022. An increase of approximately \$0.7 million \$0.5 million driven by an increase in real estate and personal property taxes accounted for a majority of the increase. We also saw an increase of approximately \$0.4 million driven by an increase in premiums for property and casualty coverage which accounted for a majority significant amount of the increase. Increased payroll cost costs due to slightly increased staffing levels also contributed to the increase. These increases were offset by a decrease of approximately \$0.5 million, as a result of the disposition of the DoubleTree by Hilton Raleigh Brownstone University in June 2022.

*Corporate General and Administrative.* Corporate general and administrative expenses for the three months ended June 30, 2023 September 30, 2023, increased decreased approximately \$0.4 million \$0.1 million, or 24.9% 7.6%, to approximately \$1.8 million \$1.7 million compared to corporate general and administrative expenses of approximately \$1.4 million \$1.8 million, for the three months ended June 30, 2022 September 30, 2022. A benefit of approximately \$0.2 million decrease in the prior period related to the employee retention credit as well as an increase in employee compensation, legal and other professional fees for the current quarter accounted for the majority of approximately \$0.4 million. the decrease.

*Interest Expense.* Interest expense for the three months ended June 30, 2023 September 30, 2023, decreased increased approximately \$1.0 \$0.3 million, or 19.7% 5.7%, to approximately \$4.3 \$4.5 million, as compared to interest expense of approximately \$5.3 million \$4.2 million, for the three months ended June 30, 2022 September 30, 2022. The decrease increase in interest expense for the three months ended June 30, 2023 September 30, 2023, was substantially related to decreases increases in the amount of corporate debt attributable to affected by increasing interest rates on the sale of the DoubleTree by Hilton Raleigh Brownstone University and the extinguishment of the Secured Notes in June 2022. variable rate mortgages.

*Unrealized Gain on Hedging Activities.* As of June 30, 2023 September 30, 2023, the fair market value of our interest rate swap assets are approximately \$1.2 million \$1.3 million. The unrealized gain on hedging activities during the three months ended June 30, 2023 September 30, 2023, was approximately \$0.3 million \$0.1 million, compared to a gain of approximately \$0.6 million \$1.4 million during the three months ended June 30, 2022 September 30, 2022. The unrealized

gain on hedging activities was driven by changes in expectation of short-term rates over the term of the hedging instruments offset by any decrease in the remaining term of each instrument.

**Gain on Involuntary Conversion of Assets.** Gain on involuntary conversion of assets decreased approximately \$0.9 million, from approximately \$1.4 million for the three months ended September 30, 2022 to approximately \$0.5 million, for the three months ending September 30, 2023. The gains were related to casualties at our properties in Savannah, Georgia and Atlanta, Georgia.

**Income Taxes.** We had an income tax provision benefit of \$16,537 \$354,398 for the three months ended June 30, 2023 September 30, 2023, compared to an income tax provision of \$11,615, \$12,474, for the three months ended June 30, 2022 September 30, 2022. While MHI TRS realized operating income for each of the three months ended June 30, 2023 and 2022, most of the resulting tax liability was offset by unrealized net operating loss carryforwards.

**Net (Loss) Income.** We realized a net income loss for the three months ended June 30, 2023 September 30, 2023, of approximately \$5.3 million \$2.1 million, compared to a net income of approximately \$27.6 million \$2.0 million, for the three months ended June 30, 2022 September 30, 2022, because of the operating results discussed above and the sale of the DoubleTree by Hilton Raleigh Brownstone University in June 2022. above.

#### **Comparison of the Six Nine Months Ended June 30, 2023 September 30, 2023, to the Six Nine Months Ended June 30, 2022 September 30, 2022**

**Revenue.** Total revenue for the six nine months ended June 30, 2023 September 30, 2023, increased approximately \$7.0 million, or 8.2% 5.6%, to approximately \$92.5 million \$131.7 million compared to total revenue of approximately \$85.5 million \$124.7 million for the six nine months ended June 30, 2022 September 30, 2022. There was a net aggregate increase in total revenue of approximately \$10.2 million \$13.6 million, at eight of our wholly-owned properties, offset mainly by decreases at our three Hollywood Beach, Florida properties. There was also a decrease of approximately \$3.2 million related to the disposition of the Sheraton Louisville Riverside in February 2022 and the DoubleTree by Hilton Raleigh Brownstone University in June 2022.

Room revenue increased approximately \$4.4 million, or 5.3%, to approximately \$87.9 million for the nine months ended September 30, 2023, compared to room revenue of approximately \$83.5 million for the nine months ended September 30, 2022. RevPAR increased 10.1% from \$105.00 for the nine month period ended September 30, 2022, to \$115.59 for the same period in 2023,

Room revenue increased approximately \$4.3 million, or 7.4%, to approximately \$61.7 million for the six months ended June 30, 2023, compared to room revenue of approximately \$57.4 million for the six months ended June 30, 2022. RevPAR increased 14.8% from \$106.49 to \$122.27 driven by a 4.5% 2.8% increase in occupancy and a 7.0% 5.3% increase in ADR offset by a 6.4% 4.4% decrease in rooms available for sale as a result of the sale of the DoubleTree by Hilton Raleigh

Brownstone – University in June 2022. Increases in room revenue at **eight seven** of our wholly-owned properties were driven by increases in small group and corporate business travel demand and offset decreases **in room revenue** at the remaining **two three** wholly-owned properties.

Food and beverage revenues increased approximately **\$4.9 million** **\$5.7 million**, or **36.9%** **27.9%**, to approximately **\$18.2 million** **\$25.8 million** for the **six nine** months ended **June 30, 2023** **September 30, 2023**, compared to food and beverage revenues of approximately **\$13.3 million** **\$20.1 million** for the **six nine** months ended **June 30, 2022** **September 30, 2022**. Increases in banqueting and catering for small groups and meetings as well as increases in demand at our restaurant outlets at nine of our wholly-owned properties offset **the a** decrease at the remaining wholly-owned property.

Revenue from other operating departments revenues decreased approximately **\$2.2 million** **\$3.1 million**, or **14.8%** **14.6%**, to approximately **\$12.6 million** **\$18.0 million** for the **six nine** months ended **June 30, 2023** **September 30, 2023**, compared to revenue from other operating departments of approximately **\$14.8 million** **\$21.1 million** for the **six nine** months ended **June 30, 2022** **September 30, 2022**. Most of the decrease related to lower net revenue related to the rental programs we manage for participating unit owners at the condominium hotel properties in Hollywood, Florida. Additionally, in the comparable **six nine** month period of 2022, we had received a one-time \$1.0 million grant from the state of North Carolina, which was not available and which we did not receive in 2023.

*Hotel Operating Expenses.* Hotel operating expenses, which consist of room expenses, food and beverage expenses, other direct expenses, indirect expenses and management fees, increased approximately **\$4.8 million** **\$7.0 million**, or **7.9%** **7.8%**, to approximately **\$65.6 million** **\$97.2 million** for the **six nine** months ended **June 30, 2023** **September 30, 2023**, compared to total hotel operating expenses of approximately **\$60.8 million** **\$90.2 million** for the **six nine** months ended **June 30, 2022** **September 30, 2022**. The increase in hotel operating expenses for the **six nine** months ended **June 30, 2023** **September 30, 2023**, resulted from an aggregate increase in total hotel operating expenses of approximately **\$7.8 million** **\$10.7 million** from **nine ten** of our properties, offset by decreases totaling approximately **\$0.7 million** **\$1.3 million** from **three two** of our properties in addition to a decrease of approximately **\$2.3 million** **\$2.4 million**, as a result of the sales of the Sheraton Louisville Riverside in February 2022 and the DoubleTree by Hilton Raleigh Brownstone University in June 2022. This increase in hotel operating expenses was directly related to the increase in revenue.

Rooms expense for the **six nine** months ended **June 30, 2023** **September 30, 2023**, increased by approximately **0.3 million** **0.2 million**, or **2.1%** **0.9%**, to approximately **\$13.4 million** **\$19.9 million**, compared to rooms expense for the **six nine** months ended **June 30, 2022** **September 30, 2022** of approximately **\$13.1 million** **\$19.7 million**. The increase in rooms expense for the **six nine** months ended **June 30, 2023** **September 30, 2023**, resulted from an aggregate increase of approximately **\$1.4 million** **\$1.6 million** from seven of our hotel properties, offset by a decrease totaling approximately **\$0.5 million** **\$0.7 million** from three of our properties in addition to a decrease of approximately **\$0.6 million** **\$0.7 million**, as a result of the sales of the Sheraton Louisville Riverside in February 2022 and the DoubleTree by Hilton Raleigh Brownstone University in June 2022.

Food and beverage expenses for the **six nine** months ended **June 30, 2023** **September 30, 2023**, increased approximately **\$3.2 million** **\$4.1 million**, or **34.9%** **29.3%**, to approximately **\$12.3 million** **\$17.9 million**, compared to food and



beverage expenses of approximately \$9.1 million \$13.8 million, for the six nine months ended June 30, 2022 September 30, 2022. The net increase in food and beverage expenses for the six nine months ended June 30, 2023 September 30, 2023, resulted from an aggregate increase of approximately \$3.4 million \$4.3 million, offset by a decrease totaling approximately \$0.2 million, as a result of the sales of the Sheraton Louisville Riverside in February 2022 and the DoubleTree by Hilton Raleigh Brownstone University in June 2022. The increase was directly related to the increase in food and beverage revenue.

Expenses from other operating departments for the six nine months ended June 30, 2023 September 30, 2023, decreased approximately \$0.5 million \$0.7 million or 9.1% 8.7%, to approximately \$4.6 million \$6.8 million, compared to other operating departments expense for the six nine months ended June 30, 2022 September 30, 2022 of approximately \$5.1 million \$7.5 million. The decrease in other operating departments expense for the six nine months ended June 30, 2023 September 30, 2023, resulted from an aggregate decrease of approximately \$0.7 million \$0.9 million from five six of our properties, including the two disposed properties, offset by an increase totaling approximately \$0.2 million from seven six of our properties.

Indirect expenses at our wholly-owned properties for the six nine months ended June 30, 2023 September 30, 2023, increased approximately \$1.8 million \$3.4 million, or 5.4% 7.0%, to approximately \$35.2 million \$52.5 million, compared to indirect expenses of approximately \$33.4 million \$49.1 million for the six nine months ended June 30, 2022 September 30, 2022. There was a net aggregate increase of approximately \$3.7 million \$5.5 million from nine ten of our properties, offset by a decrease of approximately \$0.4 million \$2.0 million from three two of our properties. The increases were driven by an approximately \$0.7 million \$1.9 million increase in premiums for property and casualty insurance coverage account and increased payroll costs due to additional staffing levels. These increases were offset by a decrease of approximately \$1.5 million, as a result of the dispositions of the Sheraton Louisville Riverside in February 2022 and the DoubleTree by Hilton Raleigh Brownstone University in June 2022.

*Corporate General and Administrative.* Corporate general and administrative expenses for the six nine months ended June 30, 2023 September 30, 2023, increased approximately \$0.8 million \$0.7 million, or 27.9% 14.3%, to approximately \$3.7 million \$5.5 million compared to corporate general and administrative expenses of approximately \$2.9 million \$4.8 million, for the six nine months ended June 30, 2022 September 30, 2022. A benefit of approximately \$0.2 million in the prior

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period related to the employee retention credit, as well as an increase in employee compensation, audit, legal and other professional fees of approximately \$1.1 million \$0.9 million contributed to the increase.

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*Interest Expense.* Interest expense for the six nine months ended June 30, 2023 September 30, 2023, decreased approximately \$2.7 \$2.4 million, or 24.0% 15.8%, to approximately \$8.4 \$12.9 million, as compared to interest expense of

approximately \$11.1 million \$15.3 million, for the six nine months ended June 30, 2022 September 30, 2022. The decrease in interest expense for the six nine months ended June 30, 2023 September 30, 2023, was substantially related to decreases in the amount of corporate debt attributable to the sales of the Sheraton Louisville Riverside in February 2022 and the DoubleTree by Hilton Raleigh Brownstone University in June 2022 and the extinguishment of the Secured Notes certain secured notes in June 2022.

*Unrealized (Loss)/Gain on Hedging Activities.* As of June 30, 2023 September 30, 2023, the fair market value of our interest rate swap assets are is approximately \$1.2 million \$1.3 million. The unrealized loss on hedging activities during the six nine months ended June 30, 2023 September 30, 2023, was approximately 0.2 million and was approximately \$0.1 million, as compared to a \$1.5 million \$3.0 million gain during the six nine months ended June 30, 2022, the September 30, 2022. The unrealized loss on hedging activities was driven by changes in expectation of short-term rates over the term of the hedging instruments.

*Income Taxes.* We had an income tax provision benefit of \$31,719 \$322,679 for the six nine months ended June 30, 2023 September 30, 2023, compared to an income tax provision of \$21,269, \$33,744, for the six nine months ended June 30, 2022 September 30, 2022. While MHI TRS realized operating income for each of the six months ended June 30, 2023 and 2022.

*Net Income.* We realized a net income for the six nine months ended June 30, 2023 September 30, 2023, of approximately \$6.6 million \$4.6 million, compared to a net income of approximately \$26.8 million \$28.8 million, for the six nine months ended June 30, 2022 September 30, 2022, because of the operating results discussed above and the dispositions of the Sheraton Louisville Riverside in February 2022 and the DoubleTree by Hilton Raleigh Brownstone University in June 2022, most of the resulting tax liability was offset by unrealized net operating loss carryforwards. 2022.

## Non-GAAP Financial Measures

We consider the non-GAAP financial measures of FFO available attributable to common stockholders and unitholders (including FFO per common share and unit), Adjusted FFO available attributable to common stockholders and unitholders, EBITDA and Hotel EBITDA to be key supplemental measures of the Company's performance and could be considered along with, not alternatives to, net income (loss) as a measure of the Company's performance. These measures do not represent cash generated from operating activities determined by generally accepted accounting principles ("GAAP") or amounts available for the Company's 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 Funds from Operations ("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, gains or losses from involuntary conversions of assets, plus certain non-cash items such as real estate asset depreciation and amortization or impairment,



stock compensation costs 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 **Available** **Attributable** to Common Stockholders and Unitholders 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, gains on extinguishment of preferred stock, 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, management contract termination costs, operating asset depreciation and amortization, change in control gains or losses, ESOP and stock compensation expenses 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 **(loss)** to FFO and Adjusted FFO, for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022:

Three	Three	Six	Six	Three	Three	Nine	Nine
Month	Month	Month	Month	Month	Month	Month	Month
s	s	s	s	s	s	s	s
Ended	Ended	Ended	Ended	Ended	Ended	Ended	Month
							Ende
							d

	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	Septe mber 30, 2023	Septe mber 30, 2022	Septe mber 30, 2023	Septe mber 30, 2022
Net income	5,2	27, 605	6,6	26, 79				
	57,	,35	45,	4,4				
	\$ 670	\$ 9	\$ 185	\$ 15				
Net (loss) income					(2,0	1,9	4,5	28, 76
					65,	72,	79,	6,9
					\$ 826)	\$ 563	\$ 359	\$ 78
Depreciation and amortization - real estate	4,7	4,6	9,3	56,	4,7	4,6	14,	13,
	50,	05,	14,	02	02,	90,	017	84
	322	649	947	5	148	712	,09	6,7
							5	37
Distributions to preferred stockholders	(1,9	(1,8	(3,9	(3,	(1,9	(1,8	(5,9	(5,
	94,	89,	88,	82	94,	13,	82,	63
	313)	470)	625)	86)	313)	820)	938)	9,9
								06)
Gain on disposal of assets	—	(29, 533	—	(29, ,56				
		,82		3,3				
	1)		64)					
(Gain) loss on disposal of assets					(4,7	1,2	(4,7	(29, ,56
					00)	15	00)	2,1
								49)
Gain on involuntary conversion of assets	(76	(77	(51	(55	(1,4	(1,3	(1,	(1,
	3,1	(51,	9,6	1,7	22,	31,	47	3,8
	69)	547)	45)	29)	295)	374)	42)	

FFO attributable to common stockholders and unitholders			11,	2,5			11,	5,9
	7,2	736	191	09,		3,4	277	37,
	50,	,17	,86	44	85,	28,	,44	81
	510	0	2	3	580	375	2	8
Amortization				28,				42,
	12,	14,	26,	79	12,	14,	39,	84
	871	094	557	0	871	094	428	4
ESOP and stock - based compensation		102	314	52		373	370	89
	54,	,52	,95	2,6	55,	,25	,71	5,9
	488	8	1	89	763	6	4	45
Loss on early debt extinguishment				5,9				5,9
		5,9		44,				44,
		44,		88				88
	—	881	—	1	—	—	—	1
Unrealized loss (gain) on hedging activities				(1,				
	(28	(57	155	53				
	6,8	2,4	,63	4,7				
	31)	97)	2	60)				
Unrealized (gain) loss on hedging activities					(10	(1,4		(2,
					3,9	57,	51,	99
					46)	552)	686	2,3
								11)

Adjusted FFO attributable to common stockholders and unitholders	7,031, \$ 038	6,225, \$ 176	11,689, \$ 200	7,471, \$ 304		2,3739, \$ 17327	11,739, \$ 0	9,829, \$ 717
Weighted average number of shares outstanding, basic	18,712, ,452	17,762, ,513	18,658, ,538	17,43, 6,975	18,906, ,851	18,045, ,365	18,742, ,219	17,59, 8,153
Weighted average number of non-controlling units	772, ,441	1,110, 093	798, ,669	1,121, 841	578, ,744	1,043, 033	724, ,555	95, 284
Weighted average number of shares and units outstanding, basic	19,484, ,893	18,872, ,606	19,457, ,207	18,55, 8,816	19,485, ,595	19,088, ,398	19,466, ,774	18,69, 3,437
FFO per common share and unit	0.37 \$ 7	0.04 \$ 4	0.58 \$ 8	0.14 \$ 4	0.00 \$ 0	0.18 \$ 8	0.58 \$ 8	0.32 \$ 2

Adjusted FFO per common share and unit								
	0.3	0.3	0.6	0.4	0.0	0.1	0.6	0.5
	\$ 6	\$ 3	\$ 0	\$ 0	\$ 0	\$ 2	\$ 0	\$ 3

**EBITDA.** We believe that excluding the effect of non-operating expenses and non-cash charges, and the portion of those items related to unconsolidated entities, all of which are also based on historical cost accounting and may be of limited significance in evaluating current performance, can help eliminate the accounting effects of depreciation and financing decisions and facilitate comparisons of core operating profitability between periods and between REITs, even though EBITDA also does not represent an amount that accrued directly to shareholders.

**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) depreciation and amortization, (5) impairment of long-lived assets or investments, (6) gains and losses on disposal and/or sale of assets, (7) gains and losses on involuntary conversions of assets, (8) unrealized gains and losses on derivative instruments not included in other comprehensive income, (9) loss on early debt extinguishment, (10) Paycheck Protection Program (PPP) debt forgiveness, (11) gain on exercise of development right, (12) corporate general and administrative expense, and (13) 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.

The following is a reconciliation of net income (loss) to Hotel EBITDA for the three and six months ended June 30, 2023, September 30, 2023 and 2022:

Three Month s Ended  June 30, 2023	Three Month s Ended  June 30, 2022	Six Month s Ended  June 30, 2023	Six Month s Ended  June 30, 2022	Three Month s Ended  Septe mber 30, 2023	Three Month s Ended  Septe mber 30, 2022	Nine Month s Ended  Septe mber 30, 2023	Nine Month s Ended  Septe mber 30, 2022
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				26,				
	5,25	27,6	6,6	794				
Net	7,67	05,3	45,	,41				
income	\$ 0	\$ 59	\$ 185	\$ 5				
								28,
Net					(2,0	1,97	4,5	766
(loss)					65,8	2,56	79,	,97
income					\$ 26)	\$ 3	\$ 359	\$ 8
Intere				11,			12,	15,
st	4,28	5,34	8,4	056	4,46	4,22	868	280
expen	8,36	2,94	01,	,14	6,63	4,38	,59	,53
se	7	0	964	4	0	7	5	1
Intere								
st	(22		(36		(22		(59	
incom	2,77	(27,	9,4	(51,	2,87	(40,	2,3	(92,
e	2)	486)	37)	934)	8)	581)	15)	515)
Incom								
e tax								
provisi	16,5	11,6	31,	21,				
on	37	15	719	269				
Incom								
e tax								
(benef								
it)					(35		(32	
provisi					4,39	12,4	2,6	33,
on					8)	74	79)	744
Depre								
ciation							14,	13,
and	4,76	4,61	9,3	9,1	4,71	4,70	056	889
amorti	3,19	9,74	41,	84,	5,01	4,80	,52	,62
zation	3	3	504	815	9	6	3	1
			24,	47,			30,	57,
	14,1	37,5	050	004	6,53	10,8	589	878
	02,9	52,1	,93	,70	8,54	73,6	,48	,35
EBITDA	95	71	5	9	7	49	3	9

PPP loan forgiveness	—	—	(27,549)	—	—	—	(27,549)	—
Loss on early debt extinguishment	—	5,944,881	5,944,881	5,944,881	—	—	—	5,944,881
Gain on disposal of assets	—	(29,533,821)	(29,533,821)	(29,533,821)	—	—	—	—
(Gain) loss on disposal of assets	—	—	—	—	(4,700)	1,215	(4,700)	(29,562,149)
Gain on involuntary conversion of assets	(76,316)	(51,547)	(77,964)	(51,547)	(55,172)	(1,422)	(1,331)	(1,473,842)
	13,3	13,9	995	334	5,98	9,45	977	787
Subtotal	39,8	11,6	,79	,67	2,11	2,56	,91	,24
I	26	84	6	9	8	9	5	9

Corporate general and administrative	1,781	1,436	3,780	2,939	1,685	1,826	5,434	4,774
Unrealized loss (gain) on hedging activities	(286,831)	(572,497)	155,632	(1,534,760)				
Unrealized (gain) loss on hedging activities					(103,946)	(1,457,552)		(2,992,311)
	14,820	14,715	26,923	24,311	34,487	34,487	34,487	34,487
Hotel EBITDA	\$ 36	\$ 53	\$ 3	\$ 2	\$ 7	\$ 3	\$ 1	\$ 7

## Sources and Uses of Cash

Our principal sources of cash are cash from hotel operations, proceeds from the sale of common and preferred stock, proceeds from the sale of secured and unsecured notes, proceeds of mortgage and other debt and hotel property sales. Our principal uses of cash are acquisitions of hotel properties, capital expenditures, debt service and balloon maturities, operating costs, corporate expenses and dividends. As of **June 30, 2023** **September 30, 2023**, we had approximately **\$24.2 million** **\$19.2 million** of unrestricted cash and **\$8.0 million** **\$10.2 million** of restricted cash.



*Operating Activities.* Our net cash flow provided by operating activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, was approximately **\$13.8 million** **\$18.5 million**, generally consisting of net cash flow provided by hotel operations. The positive cash flow from operations during the quarter and increase from the prior year was due to the increase in occupancy at our hotels as a result of increases in leisure transient, small group and corporate business travel. Cash used in or provided by operating activities generally consists of the cash flow from hotel operations, offset by the interest portion of our debt service, corporate expenses and positive or negative changes in working capital.

*Investing Activities.* Our cash used in investing activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, was approximately **\$3.9 million** **\$4.6 million**. Of this amount approximately **\$4.5 million** **\$6.1 million** was related to capital expenditures for improvements and additions to hotel properties. There were also insurance proceeds related to involuntary conversions of approximately **\$0.4 million** **\$1.3 million** and proceeds from the grant of a utility easement of approximately \$0.1 million.

*Financing Activities.* During the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, the Company and Operating Partnership received proceeds from a mortgage loan of approximately \$2.7 million, made principal payments on its mortgages of approximately **\$3.0 million** **\$5.6 million**, payments on its unsecured notes of approximately **\$0.3 million** **\$0.6 million** and payments on deferred financing costs of approximately \$0.4 million, and paid preferred dividends of approximately **\$4.0 million** **\$8.0 million**.

## Capital Expenditures

We intend to maintain all our hotels, including any hotel we acquire in the future, in good repair and condition, in conformity with applicable laws and regulations and, when applicable, with franchisor's standards. Routine capital improvements are determined through the annual budget process over which we maintain approval rights, and which are implemented or administered by our management company.

From time to time, certain of our hotel properties may undergo renovations as a result of our decision to upgrade portions of the hotel, such as guestrooms, meeting space and restaurants, in order to better compete with other hotels in our markets. In addition, we may be required by one or more of our franchisors to complete a property improvement program ("PIP") in order to bring the hotel up to the franchisor's standards. Generally, we expect to fund renovations and improvements out of working capital, including restricted cash, proceeds of mortgage debt or equity offerings.

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 2020, we postponed all major non-essential capital expenditures. As travel demand returned, and occupancy and RevPAR gradually increased, we increased the level of capital expenditures. We expect total capital expenditures for 2023 to be approximately **\$7.4 million** **\$7.6 million**.

We expect 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. Except as temporarily provided through loan modifications and forbearance agreements, we deposit an amount equal to 4.0% of gross revenue for The DeSoto, the Hotel Ballast Wilmington, Tapestry Collection by Hilton, the DoubleTree Resort by Hilton Hollywood Beach, the DoubleTree by Hilton Jacksonville Riverside, the DoubleTree by Hilton Laurel, The Whitehall and the Georgian Terrace as well as 4.0% of room revenues for the DoubleTree by Hilton Philadelphia Airport and the Hyatt Centric Arlington on a monthly basis.

## Liquidity and Capital Resources

As of June 30, 2023 September 30, 2023, we had total cash of approximately \$32.2 million \$29.4 million. During the three nine months ended June 30, 2023 September 30, 2023, we generated cash, cash equivalents and restricted cash of approximately \$4.8 million \$2.1 million. We expect that our cash on hand combined with our cash flow from our hotels should be adequate to fund continuing operations, recurring capital expenditures for the refurbishment and replacement of furniture, fixtures and equipment, and monthly scheduled payments of principal and interest (excluding any balloon payments due upon maturity of our mortgage debt).

On May 4, 2023, we secured a \$10.0 million mortgage loan on the DoubleTree by Hilton Laurel hotel with Citi Real Estate Funding Inc. Pursuant to the loan documents, the loan has a maturity date of May 6, 2028; carries a fixed rate of interest of 7.35%; required monthly payments of interest only; and cannot be prepaid until the last four months of the loan term. We used a portion of the proceeds to repay the existing first mortgage on the hotel and will use the balance of the proceeds for general corporate purposes.

As of the date of this report, we were current on all loan payments on all other mortgages per the terms of our mortgage agreements, as amended. We were in compliance with all loan covenants except the Debt Service Coverage Requirement ("DSCR") covenant under the mortgage secured by the DoubleTree by Hilton Philadelphia Airport. We anticipate receiving a waiver from the lender of the The mortgage was set to mature on the DoubleTree by Hilton Philadelphia Airport. If we are unable October 31, 2023, but was extended to obtain a waiver, we may be required December 29, 2023 pursuant to reduce the outstanding balance with a prepayment of up an amendment to approximately \$3.1 million per the terms of the loan agreement.

In October 2023, the mortgage on the DoubleTree by Hilton Philadelphia Airport matures. We intend to refinance the mortgage at the expected level anticipate a further extension of the maturing indebtedness or request maturity date the loan for an extension at existing terms. additional 18 to 36 months as well as a waiver of the non-compliance with the financial covenant subject to additional terms and conditions which may include a reduction of the principal balance and deposits into interest, FF&E and other reserve accounts.

In July 2024, the mortgage on the DoubleTree by Hilton Jacksonville Riverfront matures. We intend to refinance the mortgage at the expected level of maturing indebtedness.

We intend to continue to invest in hotel properties as suitable opportunities arise. The success of our acquisition strategy depends, in part, on our ability to access additional capital through other sources, which we expect to be limited as a result of the continuing impact of the COVID-19 pandemic. There can be no assurance that we will continue to make investments in properties that meet our investment criteria or have access to capital during this period. Additionally, we may choose to dispose of certain hotels as a means to provide liquidity.

Over the long term, we expect to meet our liquidity requirements for hotel property acquisitions, property redevelopment, investments in new joint ventures and debt maturities, and the retirement of maturing mortgage debt, through net proceeds from additional issuances of common shares, additional issuances of preferred shares, issuances of units of limited partnership interest in

our Operating Partnership, secured and unsecured borrowings, the selective disposition of non-core assets, and cash on hand. 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 directly related to the financial performance of the collateralized properties. Failure to comply with these financial covenants could result from, among other things, changes in the local competitive environment, disruption caused by renovation activity, major weather disturbances, general economic conditions as well as the effects of the ongoing global pandemic.

As described in “Liquidity and Capital Resources”, as of June 30, 2023 September 30, 2023, we failed to meet certain financial were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans, with the exception of a covenant default under the mortgage secured by on the DoubleTree by Hilton Philadelphia Airport. We intend to work with the lender to receive anticipate a waiver of non-compliance in conjunction with and to amend, refinance, or extend the term extension of the loan prior to maturity in October 2023.term.

Certain of our loan agreements also include financial covenants that trigger a “cash trap”. As of September 30, 2023, we failed to meet the financial covenants under the mortgage secured by the DoubleTree Resort by Hilton Hollywood Beach, which triggers a “cash trap” under the loan documents, requiring substantially all the revenue generated by the hotel to be deposited directly into a lockbox account and swept into a cash management account for the benefit of the lender until the property meets the criteria in the loan agreement for exiting the “cash trap”.

## Dividend Policy

We may not make distributions with respect to any shares of our common stock, unless and until full cumulative distributions on the outstanding preferred stock for all past unpaid periods are paid or declared and a sum sufficient for the payment thereof in cash is set aside.

On January 24, 2023, we announced that we will resume quarterly distributions to holders of our preferred stock and set a record date of February 28, 2023 with a payment date of March 15, 2023.

On April 24, 2023, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of May 31, 2023 and a payment date of June 13, 2023.

On May 30, 2023, we announced the declaration of a "catch up" distribution to holders of our preferred stock with a record date of June 30, 2023 and a payment date of July 14, 2023.

On August 1, 2023, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of August 31, 2023 and a payment date of September 15, 2023.

On October 30, 2023, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of November 30, 2023 and a payment date of December 15, 2023.

As of **June 30, 2023** **September 30, 2023**, the amount of cumulative unpaid dividends on our outstanding preferred shares as approximately **\$23.9 million** **\$21.9 million**. We expect that any reduction in the level of cumulative unpaid distributions will be made in the form of a series of "catch up" distributions, such as the distribution announced on May 30, 2023. The amount, timing and frequency of distributions, including additional "catch-up" distributions, will be authorized by our board of directors and based upon a variety of factors deemed relevant by the directors. No assurance can be given that the distribution policy will not change in the future.

### Off-Balance Sheet Arrangements

None.

### Inflation

We generate revenues primarily from lease payments from our MHI TRS Entities and net income from the operations of our MHI TRS Entities. 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 that differ from the general rate of inflation.

## Geographic Concentration and Seasonality

Our hotels are located in Florida, Georgia, 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, local stay-at-home and business closure orders, 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 preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liability at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. It is possible that the actual amounts may differ significantly from these estimates and assumptions. It is also possible that actual amounts may differ significantly from these estimates and assumptions. We evaluate our estimates, assumptions and judgment on an ongoing basis, based on information that is available to us, our business and industry experience, and various other matters that we believe are reasonable and appropriate for consideration under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no material changes in these critical accounting policies or the methods or assumptions we apply.

## 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.

## 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, 2023 September 30, 2023, we had approximately \$308.6 million \$267.8 million of fixed-rate debt, including the mortgage on our Philadelphia, Pennsylvania hotel, which is fixed by an interest rate swap to 5.237%, mortgage on our Tampa, Florida hotel, which is fixed by an interest rate swap to approximately 5.576%, and the PPP Loans of approximately \$1.9 million \$1.7 million, with a fixed rate of 1.0% and approximately \$14.1 million \$53.0 million of variable-rate debt. The weighted-average interest rate on the fixed-rate debt was 4.91% 4.87%. 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 the Prime Rate. Assuming that the aggregate amount outstanding on the mortgage mortgages on The Whitehall our Philadelphia, Pennsylvania and Houston, Texas hotels remains at approximately \$14.1 million \$53.0 million, the balance at June 30, 2023 September 30, 2023, the impact on our annual interest incurred and cash flows of a one percent increase in SOFR and the Prime Rate, would be approximately \$0.1 million \$0.5 million.

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As of December 31, 2022, we had approximately \$310.2 million of fixed-rate debt, including the mortgage on our DoubleTree by Hilton Philadelphia Airport hotel, which is fixed by an interest rate swap to 5.237%, the mortgage on our Hotel Alba Tampa, Tapestry Collection by Hilton, which is fixed by an interest rate swap to approximately 5.576% and the PPP Loans of \$2.5 million, with a fixed rate of 1.0% and approximately \$14.2 million of variable-rate debt. The weighted-average interest rate on the fixed-rate debt was 4.83%. 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, SOFR, and in Prime Rate. Assuming that the aggregate amount outstanding on the mortgage on The Whitehall

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remains at approximately \$14.2 million, the balance at December 31, 2022, the impact on our annual interest incurred and cash flows of a one percent increase in 1-month LIBOR, SOFR, and in Prime Rate, would be approximately \$0.1 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 Exchange Act, as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act), as of **June 30, 2023** **September 30, 2023**. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of **June 30, 2023** **September 30, 2023**, 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, 2023** **September 30, 2023**. Based on that evaluation,



the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2023 September 30, 2023, 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.

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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.

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## PART II

### Item 1. *Legal Proceedings*

We are not involved in any material legal proceedings, nor to our knowledge, is any material litigation threatened against us. We are involved in routine legal proceedings arising out of the ordinary course of business most of which is expected to be covered by insurance, and none of which is expected to have a material impact on our financial condition or 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, 2022.

## **Item 2. *Unregistered Sales of Equity Securities, and Use of Proceeds and Issuer Purchases of Equity Securities***

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***

### **Preferred Stock**

The Company's distribution on the shares of the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock are in arrears for nine quarterly periods. When distributions on any shares of the Company's Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock are in arrears for six or more quarterly periods, whether or not consecutive, the holders of the Company's preferred stock shall be entitled to vote for the election of a total of two additional directors of the Company, at a special meeting or at the next annual meeting of stockholders and at each subsequent annual meeting of the stockholders until full cumulative distributions for all past unpaid periods are paid or declared and a sum sufficient for the payment thereof in cash is set aside. In addition, the Company may not make distributions with respect to any shares of its common stock, unless and until full cumulative distributions on the preferred stock for all past unpaid periods are paid or declared and a sum sufficient for the payment thereof in cash is set aside.

As of August 11, 2023 November 10, 2023, the Company has deferred payment and is in arrears on dividends for the Company's Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock for the periods ending December 31, 2020, March 31, 2021, June 30, 2021, September 30, 2021, December 31, 2021, March 31, 2022, June 30, 2022, September 30, 2022, December 31, 2022, March 31, 2023, June 30, 2023, and June 30, 2023 September 30, 2023. The relevant distributions were as follows:

- A regular quarterly cash dividend of \$0.50 per share of beneficial interest of the Series B Preferred Stock;
- A regular quarterly cash dividend of \$0.4921875 per share of beneficial interest of the Series C Preferred Stock; a
- A regular quarterly cash dividend of \$0.515625 per share of beneficial interest of the Series D Preferred Stock.

The Company has declared dividends in the respective amounts shown above for each of the Series B, Series C, and Series D Preferred Stock, for the distribution period ending December 31, 2020 March 31, 2021, payable on September 15, 2023 December 15, 2023. The total arrearage of cumulative unpaid cash dividends on each of the Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock through August 11, 2023 November 10, 2023, are \$8,052,550, \$7,287,931, and \$6,596,958, respectively.

## **Item 4. *Mine Safety Disclosures***

Not applicable.

## Item 5. Other Information

Not applicable.

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## Item 6. Exhibits

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

Exhibit Number	Description of Exhibit
3.1 10.1	<a href="#">Third Amended Executive Officer Incentive Compensation Recovery Policy (incorporated by reference to the document previously filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Restated Bylaws of the Company, effective as of July 31, 2023, Exchange Commission on August 4, 2023).</a>
31.1	<a href="#">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. **</a>
31.2	<a href="#">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. **</a>
31.3	<a href="#">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. **</a>
31.4	<a href="#">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. **</a>
32.1	<a href="#">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. **</a>
32.2	<a href="#">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. **</a>

32.3	<a href="#"><u>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.</u></a> **
32.4	<a href="#"><u>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.</u></a> **
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document (+)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (+)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (+)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (+)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (+)
<u>104</u>	Cover Page Interactive Data File (embedded within the Inline XBRL document) (+)

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

\*\* Filed herewith

(+) Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement for purposes of Section 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

## 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 14, 2023

By  
: /s/ David R. Folsom  
\_\_\_\_\_  
David R. Folsom  
President and 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 14, 2023 November 13, 2023

By  
: /s/ David R. Folsom  
\_\_\_\_\_  
David R. Folsom  
President and Chief Executive Officer

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

Exhibit 3.1

SOTHERLY HOTELS INC. SIGNATURES

THIRD AMENDED AND RESTATED BYLAWS

AS OF July 31, 2023

## ARTICLE I

### OFFICES

**Section 1. PRINCIPAL OFFICE.** The principal office of Sotherly Hotels Inc. (the “Corporation”) in Pursuant to the State of Maryland shall be located at such place as the Board of Directors may designate.

**Section 2. ADDITIONAL OFFICES.** The Corporation may have additional offices, including a principal executive office, at such places as the Board of Directors may from time to time determine or the business of the Corporation may require.

## ARTICLE II

### MEETINGS OF STOCKHOLDERS

**Section 1. PLACE.** All meetings of stockholders shall be held at the principal executive office of the Corporation or at such other place as shall be set by the Board of Directors and stated in the notice of the meeting.

**Section 2. ANNUAL MEETING.** An annual meeting of the stockholders for the election of Directors and the transaction of any business within the powers of the Corporation shall be held on a date and at the time set by the Board of Directors.

### Section 3. SPECIAL MEETINGS.

(a) **General.** The chairman of the Board of Directors, the president, the chief executive officer or a majority of the Board of Directors may call a special meeting of the stockholders. Subject to subsection (b) of this Section 3, a special meeting of stockholders shall also be called by the secretary of the Corporation upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting. Except as provided in paragraph (4) requirements of Section 3(b), any special meeting shall be held at such place, date and time as may be designated by the president, chief executive officer 13 or Board 15(d) of Directors, whoever has called the meeting. In fixing a date for any special meeting, the president, chief executive officer or Board of Directors may consider such factors as he, she or it deems relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for a meeting and any plan of the Board of Directors to call an annual meeting or a special meeting.

(b) **Stockholder Requested Special Meetings.** (1) Any stockholder of record seeking to have stockholders request a special meeting shall, by sending written notice to the secretary of the Corporation (the “Record Date Request Notice”) by registered mail,

return receipt requested, request the Board of Directors to fix a record date to determine the stockholders entitled to request a special meeting (the "Request Record Date"). The Record Date Request Notice shall set forth in reasonable detail the purpose of the meeting and the matters proposed to be acted on at it, shall be signed by one or more stockholders of record as of the date of signature (or their agents duly authorized in writing), shall bear the date of signature of each such stockholder (or such agent) and shall set forth all information relating to each such stockholder that must be disclosed in solicitations of proxies for election of Directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules promulgated thereunder. Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede, and shall not be more than, ten days after the close of business signed on the date on which the resolution fixing the Request Record Date is adopted its behalf by the Board of Directors. If the Board of Directors, within ten days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date and make a public announcement of such Request Record Date, the Request Record Date shall be the close of business on the tenth day after the first date on which the Record Date Request Notice is received by the secretary.

(2) In order for any stockholder to request a special meeting, one or more written requests for a special meeting signed by stockholders of record (or their agents undersigned, thereunto duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than a majority (the "Special Meeting Percentage") of all of the votes entitled to be cast at such meeting (the "Special Meeting Request") shall be delivered to the secretary. In addition, the Special Meeting Request (a) shall set forth in reasonable detail the purpose of the meeting and the matters proposed to be acted on at it (which shall be limited to the matters set forth in the Record Date Request Notice received by the secretary), (b) shall bear the date of signature of each such stockholder (or such agent) signing the Special Meeting Request, (c) shall set forth the name and address, as they appear in the Corporation's books, of each stockholder signing such request (or on whose behalf the Special Meeting Request is signed), the class, series and number of all shares of stock of the Corporation which are owned by each such stockholder and the name and address of the nominee holder for, and class, series and number of, shares owned by such stockholder beneficially but not of record, (d) shall be sent to the secretary by registered mail, return receipt requested, and (e) shall be received by the secretary within sixty (60) days after the Request Record Date. Any requesting stockholder (or agent duly authorized in a writing accompanying the revocation for the Special Meeting Request) may revoke his, her or its request for a special meeting at any time by written revocation delivered to the secretary.

(3) The requesting stockholders shall pay all costs of preparing and mailing the notice of meeting (including the Corporation's proxy materials) and any other notices required under these Bylaws. The secretary shall inform the requesting stockholders of the estimation of such costs. The secretary shall not be required to call a special meeting upon stockholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 3(b), the secretary

authorized.

Date: November 13, 2023

SOTHERLY HOTELS LP

By

: SOTHERLY HOTELS INC.  
Its General Partner

By

: /s/ David R. Folsom

David R. Folsom

President and Chief Executive Officer

By

: /s/ Anthony E. Domalski

Anthony E. Domalski

Chief Financial Officer

receives payment from such requesting stockholder of such reasonably estimated cost prior to the preparation, printing and mailing of any notice of the meeting.

(4) In the case of any special meeting called by the secretary upon the request of stockholders (a "Stockholder Requested Meeting"), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; provided, however, that the date of any Stockholder Requested Meeting shall be not more than ninety (90) days after the record date for such meeting (the "Meeting Record Date"); and provided further that if the Board of Directors fails to designate, within ten (10) days after the date that a valid Special Meeting Request is actually received by the secretary (the "Delivery Date"), a date and time for a Stockholder Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the ninetieth (90<sup>th</sup>) day after the Meeting Record Date or, if such ninetieth (90<sup>th</sup>) day is not a Business Day (as defined below), on the first preceding Business Day (as defined below); and provided further that in the event that the Board of Directors fails to designate a place for a Stockholder Requested Meeting within ten (10) days after the Delivery Date, then such meeting shall be held at the principal executive offices of the Corporation. In the case of any Stockholder Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within thirty (30) days after the Delivery Date, then the close of business on the thirtieth (30<sup>th</sup>) day

after the Delivery Date shall be the Meeting Record Date. The Board of Directors may revoke the notice for any Shareholder Requested Meeting in the event that the requesting stockholders fail to comply with the provisions of paragraph (3) of this Section 3(b).

(5) If written revocations of requests for the special meeting have been delivered to the secretary and the result is that stockholders of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and not revoked, requests for a special meeting to the secretary, the secretary shall: (i) if the notice of meeting has not already been mailed, refrain from mailing the notice of the meeting and send to all requesting stockholders who have not revoked such requests written notice of any revocation of a request for the special meeting., or (ii) if the notice of meeting has been mailed and if the secretary first sends to all requesting stockholders who have not revoked requests for a special meeting written notice of any revocation of a request for the special meeting and written notice of the secretary's intention to revoke the notice of the meeting, revoke the notice of the meeting at any time before ten days before the commencement of the meeting. Any request for a special meeting received after a revocation by the secretary of a notice of a meeting shall be considered a request for a new special meeting.

(6) The chairman of the Board of Directors, the chief executive officer, the president or the Board of Directors may appoint regionally or nationally recognized independent inspectors of elections (who may be the transfer agent for shares of the Corporation, or an affiliate thereof) to act as the agent of the Corporation for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the secretary. For the purpose of permitting the inspectors to perform such review, no such purported Special Meeting Request shall be deemed to have been delivered to the secretary until the earlier of (i) ten (10) Business Days after receipt by the secretary of such purported Special Meeting Request and (ii) such date as the independent inspectors certify to the Corporation that the valid Special Meeting Requests received by

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the secretary represent as of the Request Record Date at least a majority of the votes entitled to be cast at such meeting. Nothing contained in this paragraph (6) shall in any way be construed to suggest or imply that the Corporation or any stockholder shall not be entitled to contest the validity of any request, whether during or after such ten (10) Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(7) For purposes of these Bylaws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in New York City are authorized or obligated by law, regulation or executive order to close.



(8) Unless requested by the stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting, no Stockholder Requested Meeting shall be called to consider any matter which is substantially the same as a matter voted on at any meeting of stockholders held during the preceding twelve (12) months.

**Section 4. NOTICE.** Not less than ten (10) nor more than ninety (90) days before each meeting of stockholders, the secretary shall give to each stockholder entitled to vote at such meeting and to each stockholder not entitled to vote who is entitled to notice of the meeting written or printed notice stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by law, the purpose for which the meeting is called, either by mail, by presenting it to such stockholder personally, by leaving it at the stockholder's residence or usual place of business or by any other means permitted by Maryland law. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at the stockholder's address as it appears on the records of the Corporation, with postage thereon prepaid.

Subject to Section 11(a) of this Article II, any business of the Corporation may be transacted at an annual meeting of stockholders without being specifically designated in the notice, except such business as is required by any statute to be stated in such notice. No business shall be transacted at a special meeting of stockholders except as specifically designated in the notice.

**Section 5. ORGANIZATION AND CONDUCT.** Every meeting of stockholders shall be conducted by an individual appointed by the Board of Directors to be chairman of the meeting or, in the absence of such appointment, by the chairman of the Board of Directors or, in the case of a vacancy in the office or absence of the chairman of the Board of Directors, by one of the following officers present at the meeting: the vice chairman of the Board of Directors, if there be one, the president, the vice presidents in their order of rank and seniority, or, in the absence of such officers, a chairman chosen by the stockholders by the vote of a majority of the votes cast by stockholders present in person or by proxy. The secretary, or, in the secretary's absence, an assistant secretary, or in the absence of both the secretary and assistant secretaries, an individual appointed by the Board of Directors or, in the absence of such appointment, an individual appointed by the chairman of the meeting shall act as secretary. In the event that the secretary presides at a meeting of the stockholders, an assistant secretary, or in the absence of assistant secretaries, an individual appointed by the Board of Directors or, in the absence of such appointments

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the chairman of the meeting, shall record the minutes of the meeting. The order of business and all other matters of procedure at any meeting of stockholders shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of such chairman, are appropriate for the proper conduct of the meeting, including, without limitation, (a) restricting admission to the time set for the commencement of

the meeting; (b) limiting attendance at the meeting to stockholders of record of the Corporation, their duly authorized proxies or other such individuals as the chairman of the meeting may determine; (c) limiting participation at the meeting on any matter to stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies or other such individuals as the chairman of the meeting may determine; (d) limiting the time allotted to questions or comments by participants; (e) determining when the polls should be opened and closed; (f) maintaining order and security at the meeting; (g) removing any stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting; and (h) recessing or adjourning the meeting to a later date and time and place announced at the meeting. Unless otherwise determined by the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

**Section 6. QUORUM.** At any meeting of stockholders, the presence in person or by proxy of stockholders entitled to cast at least thirty-three and one-third percent (33⅓%) of all the votes entitled to be cast at such meeting shall constitute a quorum; but this section shall not affect any requirement under any statute or the Articles of Incorporation (the “Charter”) of the Corporation for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present at any meeting of the stockholders, the chairman of the meeting shall have the power to adjourn the meeting from time to time to a date not more than one hundred twenty (120) days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

The stockholders present either in person or by proxy, at a meeting which has been duly called and convened, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

**Section 7. VOTING.** A plurality of all the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to elect a director. Each share may be voted for as many individuals as there are Directors to be elected and for whose election the share is entitled to be voted. A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the Charter of the Corporation. Unless otherwise provided in the Charter, each outstanding share of stock, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders.

**Section 8. PROXIES.** A stockholder may cast the votes entitled to be cast by the shares of stock owned of record by the stockholder in person or by proxy executed by the

stockholder or by the stockholder's duly authorized agent in any manner permitted by law. Such proxy or evidence of authorization of such proxy shall be filed with the secretary of the Corporation before or at the meeting. No proxy shall be valid more than eleven months after its date, unless otherwise provided in the proxy.

**Section 9.VOTING OF SHARES BY CERTAIN HOLDERS.** Shares of stock of the Corporation registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the chief executive officer, president or a vice president, a general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such shares pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such shares. Any fiduciary may vote shares of stock registered in his or her name as such fiduciary, either in person or by proxy.

Shares of stock of the Corporation directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Board of Directors may adopt by resolution a procedure by which a stockholder may certify in writing to the Corporation that any shares of stock registered in the name of the stockholder are held for the account of a specified person other than the stockholder. The resolution shall set forth the class of stockholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date, the time after the record date within which the certification must be received by the Corporation; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of such certification, the person specified in certification shall be regarded as, for the purposes set forth in the certification, the stockholder of record of the specified shares of stock in place of the stockholder who makes the certification.

**Section 10.INSPECTORS.** The Board of Directors, in advance of any meeting, may, but need not, appoint one or more individual inspectors or one or more entities that designate individuals as inspectors to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the individual presiding at the meeting may, but need not, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the chairman of the meeting. The inspectors, if any, shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all

challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. Each such report

shall be in writing and signed by him or her or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof.

## **Section 11. ADVANCE NOTICE OF STOCKHOLDER NOMINEES FOR DIRECTOR AND OTHER PROPOSALS BY STOCKHOLDERS.**

(a) Annual Meetings of Stockholders. (1) Nominations of individuals for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record both at the time of giving of notice by the stockholder provided for in this Section 11(a) and at the time of the annual meeting, who is entitled to vote at the meeting and who complied with this Section 11(a).

(2) For nominations for election to the Board of Directors or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a)(1) of this Section 11, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation and shall set forth in such notice all information required under this Section 11 and such other business shall otherwise be a proper matter for action by stockholders. To be timely, a stockholder's notice shall set forth all information required under this Section 11 and shall be delivered to the secretary at the principal executive office of the Corporation not later than 5:00 pm, Eastern Time, on the ninetieth (90<sup>th</sup>) day prior to the first (1<sup>st</sup>) anniversary of the date of mailing of the notice for the preceding year's annual meeting of stockholders nor earlier than 5:00 pm, Eastern Time, on the one hundred twentieth (120<sup>th</sup>) day prior to the first (1<sup>st</sup>) anniversary of the date of mailing of the notice for the preceding year's annual meeting of stockholders; provided, however, that in the event that the date of the mailing of the notice for the annual meeting of stockholders is advanced or delayed by more than thirty (30) days from the first (1<sup>st</sup>) anniversary of the date of the preceding year's annual meeting of stockholders, notice by the stockholder to be timely must be so delivered not earlier than 5:00 pm, Eastern Time, on the one hundred twentieth (120<sup>th</sup>) day prior to the date of mailing of the notice for such annual meeting of stockholders and not later than 5:00 pm, Eastern Time, on the later of the ninetieth (90<sup>th</sup>) day prior to the date of mailing of the notice for such annual meeting of stockholders or the tenth (10<sup>th</sup>) day following the day on which public announcement of the date of the annual meeting of stockholders is first made by the Corporation. In no event shall the public

announcement of a postponement of an annual meeting of stockholders to a later date or time commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (i) as to each individual whom the stockholder proposes to nominate for election or reelection as a director (A) the name, age, business address and residence address of such person, (B) the class, series and number of shares of stock of the Corporation that are beneficially owned by such individual, (C) the date such shares were acquired and the investment intent of such acquisition and (D) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors in an

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election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules promulgated thereunder (including such individual's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a description in reasonable detail of the business desired to be brought before the meeting, the complete text of any resolutions intended to be presented at the annual meeting, the reasons for proposing such business at the meeting and any material interest in such business of such stockholder and any Stockholder Associated Person (as defined below), individually or in the aggregate, including any anticipated benefit to the stockholder and the Stockholder Associated Person therefrom, (iii) as to the stockholder giving the notice and Stockholder Associated Person, the class, series and number of all shares of stock of the Corporation which are owned by such stockholder and by such Stockholder Associated Person, if any, and the nominee holder for, and number of, shares owned beneficially but not of record by such stockholder and by any such Stockholder Associated Person; (iv) as to the stockholder giving the notice and any Stockholder Associated Person covered by clauses (ii) or (iii) of this paragraph (2) of this Section 11(a), the name and address of such stockholder as they appear on the Corporation's stock ledger and current name and address, if different, and of such Stockholder Associated Person; (v) a representation that the stockholder giving the notice intends to appear at the meeting in person or by proxy to submit the business specified in such notice; (vi) to the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or reelection as a director or the proposal of other business on the date of such stockholder's notice; and (vii) all other information relating to the nomination or proposed business which may be required to be disclosed under applicable law. In addition, a stockholder seeking to submit such nominations or business at the meeting shall promptly provide any other information reasonably requested by the Corporation.

(3) Notwithstanding anything in this subsection(a) of this Section 11 to the contrary, in the event the Board of Directors increases or decreases the maximum or minimum number of directors in accordance with Article III, Section 2 of these Bylaws, and there is no public announcement of such



action at least one hundred (100) days prior to the first (1<sup>st</sup>) anniversary of the date of mailing of the notice of the preceding year's annual meeting of stockholders, a stockholder's notice required by this Section 11(a) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if the notice is delivered to the secretary at the principal executive offices of the Corporation not later than 5:00 pm, Eastern Time, on the tenth (10<sup>th</sup>) day immediately following the day on which such public announcement is first made by the Corporation.

(4) For purposes of this Section 11, "Stockholder Associated Person" of any stockholder shall mean (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder and (iii) any person controlling, controlled by or under common control with such Stockholder Associated Person.

(b)Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant

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to the Corporation's notice of meeting. Nominations of individuals for election to the Board of Directors may be made at a special meeting of stockholders at which Directors are to be elected (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that Directors shall be elected at such special meeting, by any stockholder of the Corporation who is a stockholder of record both at the time of giving of notice by the stockholders provided for in this Section 11(b) and at the time of the special meeting, who is entitled to vote at the meeting and who complied with this Section 11(b). In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more individuals to the Board of Directors, any such stockholder may nominate an individual or individuals (as the case may be) for election as a Director as specified in the Corporation's notice of meeting, if the stockholder's notice containing the information required by paragraph (a)(2) of this Section 11 shall be delivered to the secretary at the principal executive offices of the Corporation not earlier than 5:00 pm, Eastern Time, on the one hundred twentieth (120<sup>th</sup>) day prior to such special meeting and not later than 5:00 pm, Eastern Time, on the later of the ninetieth (90<sup>th</sup>) day prior to such special meeting or the tenth (10<sup>th</sup>) day following the day on which public announcement is first made of the date of the special meeting and the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of a postponement or adjournment of a special meeting to a later date or time commence a new time period for the giving of a stockholder's notice as described above.

(c)General. (1) Upon written consent by the secretary or the Board of Directors or any committee thereof, any stockholder proposing a nominee for election as a director or any proposal for other business at a meeting of stockholders shall provide, within five (5) Business Days of delivery of such request (or such other period as may be specified in such request), written verification,

satisfactory, in the discretion of the Board of Directors or any committee thereof or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the stockholder pursuant to this Section 11. If a stockholder fails to provide such written verification within such period, the information as to which written verification was requested may be deemed not to have been provided in accordance with this Section 11.

(2) Only such individuals who are nominated by stockholders in accordance with the procedures set forth in this Section 11 shall be eligible to serve as Directors, and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with this Section 11. The chairman of the meeting shall have the power and duty to determine whether a nomination or any other business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with this Section 11 and, if any proposed nomination or business is not in compliance with this Section 11, to declare that such defective nomination or proposal shall be disregarded.

(3) For purposes of this Section 11, (a) the “date of mailing of the notice” shall mean the date of the proxy statement for the solicitation of proxies for election of Directors and (b) “public announcement” shall mean disclosure (i) in a press release transmitted to the principal securities exchange on which the Corporation’s common shares are traded or reported by a recognized news service or (ii) in a document publicly filed by

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the Corporation with the United States Securities and Exchange Commission pursuant to the Exchange Act.

(4) Notwithstanding the foregoing provisions of this Section 11, a stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 11. Nothing in this Section 11 shall be deemed to affect any right of a stockholder to request inclusion of a proposal in, nor the right of the Corporation to omit a proposal from, the Corporation’s proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act. Subject to the foregoing provisions of this Section 11, a resolution or motion shall be considered for vote only if proposed by a stockholder or a duly authorized proxy and seconded by a stockholder or duly authorized proxy other than the individual who proposed the resolution or motion.

**Section 12. VOTING BY BALLOT.** Voting on any question or in any election may be viva voce unless the presiding officer shall order or any stockholder shall demand that voting be by ballot.

**Section 13. WRITTEN CONSENT BY STOCKHOLDERS.** Any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting if a consent in writing, setting forth such action, is signed by each stockholder entitled to vote on the matter and any other

stockholder entitled to notice of a meeting of stockholders (but not to vote thereof) has waived in writing any right to dissent from such action, and such consent and waiver are filed with the minutes of proceedings of the stockholders.

**Section 14. CONTROL SHARE ACQUISITION ACT.** Notwithstanding any other provision of the Charter of the Corporation or these Bylaws, Title 3, Subtitle 7 of the Maryland General Corporation Law (the “MGCL”) (or any successor statute) shall not apply to any acquisition by any person of shares of stock of the Corporation. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

## ARTICLE III

### DIRECTORS

**Section 1. GENERAL POWERS.** The business and affairs of the Corporation shall be managed under the direction of its Board of Directors.

**Section 2. NUMBER, TENURE AND QUALIFICATIONS.** At any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Directors may establish, increase or decrease the number of Directors; provided that the number thereof shall never be less than the minimum number required by the MGCL, nor more than fifteen (15); and further provided that the tenure of office of a director shall not be affected by any decrease in the number of directors. In case of failure to elect Directors at an annual meeting of the stockholders, the Directors holding over shall continue to direct the management of the business and affairs of the Corporation until their successors are

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elected and qualify. A Director shall be an individual at least 21 years of age who is not under legal disability. At least one-half of the Board of Directors shall be Directors whom the Board has determined are “independent” under the standards established by the Board of Directors and in accordance with the then applicable requirements of the NASDAQ Stock Market. One Director shall be the Chief Executive Officer of the Corporation. All nominations, including the nomination of the Chief Executive Officer, to serve as Directors must be submitted through and approved by the Nominating and Corporate Governance Committee and follow the nominating process established by that committee for the nomination of Directors (except for director nomination rights that have been granted or provided to a third party as permitted under the rules of the Nasdaq Stock Market or as provided pursuant to the terms of any class or series of Preferred Stock) and must satisfy the standards for membership on the Board of Directors approved by that committee from time to time. This Section 2 may not be amended or deleted without the unanimous consent of the Board of Directors.



**Section 3. ANNUAL AND REGULAR MEETINGS.** An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of stockholders, no notice other than this Bylaw being necessary. In the event such meeting is not so held, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors. The Board of Directors may provide, by resolution, the time and place for the holding of regular meetings of the Board of Directors without other notice than such resolution.

**Section 4. SPECIAL MEETINGS.** Special meetings of the Board of Directors may be called by or at the request of the chairman of the Board of Directors, the chief executive officer, the president or by a majority of the Directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix any place as the place for holding any special meeting of the Board of Directors called by them. The Board of Directors may provide, by resolution, the time and place for the holding of special meetings of the Board of Directors without notice other than such resolution.

**Section 5. NOTICE.** Notice of any special meeting of the Board of Directors shall be delivered personally or by telephone, electronic mail, facsimile transmission, United States mail or courier to each director at his or her business or residence address. Notice by personal delivery, telephone, electronic mail or facsimile transmission shall be given at least twenty four (24) hours prior to the meeting. Notice by United States mail shall be given at least three (3) days prior to the meeting. Notice by courier shall be given at least two (2) days prior to the meeting. Telephone notice shall be deemed to be given when the director or his or her agent is personally given such notice in a telephone call to which the director or his or her agent is a party. Electronic mail notice shall be deemed to be given upon transmission of the message to the electronic mail address given to the Corporation by the director. Facsimile transmission notice shall be deemed to be given upon completion of the transmission of the message to the number given to the Corporation by the director and receipt of a completed answer-back indicating receipt. Notice by United States mail shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. Notice by courier shall be deemed to be given when deposited with or delivered to a courier properly addressed. Neither the

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business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be stated in the notice, unless specifically required by statute or these Bylaws.

**Section 6. QUORUM.** A majority of the Directors shall constitute a quorum for transaction of business at any meeting of the Board of Directors, provided that, if less than a majority of such Directors are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice, and provided further that if, pursuant to applicable law, the Charter of the Corporation, or these Bylaws, or the provisions of any applicable committee charter, the

vote of a majority of a particular group of Directors is required for action, a quorum must also include a majority of such group.

The Directors present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough Directors to leave less than a quorum.

**Section 7.VOTING.** The action of the majority of the Directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws. If enough Directors have withdrawn from a meeting to leave less than a quorum but the meeting is not adjourned, the action of a majority of that number of Directors necessary to constitute a quorum at such meeting shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws.

**Section 8.ORGANIZATION.** At each meeting of the Board of Directors, the chairman of the Board of Directors or, in the absence of the chairman, the vice chairman of the Board of Directors, if any, shall act as chairman of the meeting. In the absence of both the chairman and vice chairman of the Board of Directors, the chief executive officer or in the absence of the chief executive officer, the president or in the absence of the president, a director chosen by a majority of the Directors present, shall act as chairman of the meeting. The secretary or, in his or her absence, an assistant secretary of the Corporation, or in the absence of the secretary and all assistant secretaries, a person appointed by the chairman of the meeting, shall act as secretary of the meeting.

**Section 9.TELEPHONE MEETINGS.** Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

**Section 10.CONSENT BY DIRECTORS WITHOUT A MEETING.** Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if a consent in writing or by electronic transmission to such action is given by each director and is filed with the minutes of proceedings of the Board of Directors.

**Section 11.VACANCIES.** If for any reason any or all the Directors cease to be Directors, such event shall not terminate the Corporation or affect these Bylaws or the powers of the remaining Directors hereunder (even if fewer than three Directors remain).

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Except as may be provided by the Board of Directors in setting the terms of any class or series of shares of preferred stock, any vacancy on the Board of Directors may be filled only by a majority of the

remaining Directors and in accordance with the Director qualifications set forth in Section 2 of this Article III, even if the remaining Directors do not constitute a quorum. Any director elected to fill a vacancy shall serve for the remainder of the full term of the class in which the vacancy occurred and until a successor is elected and qualifies.

**Section 12. COMPENSATION.** Directors shall not receive any stated salary for their services as Directors, but, by resolution of the Directors, Directors that are not employed by the Corporation may receive compensation per year and/or per meeting and/or per visit to real property or other facilities owned, leased or to be acquired by the Corporation and for any service or activity they performed or engaged in as Directors. Directors may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Directors or of any committee thereof and for their expenses, if any, in connection with each property visit and any other service or activity they performed or engaged in as Directors; but nothing herein contained shall be construed to preclude any Directors from serving the Corporation in any other capacity and receiving compensation therefore.

**Section 13. REMOVAL OF DIRECTORS.** The stockholders may, at any time, remove any Director in the manner provided in the Charter.

**Section 14. LOSS OF DEPOSITS.** No Director shall be liable for any loss which may occur by reason of the failure of the bank, trust company, savings and loan association, or other institution with whom moneys or shares of stock have been deposited.

**Section 15. SURETY BONDS.** Unless required by law, no Director shall be obligated to give any bond or surety or other security for the performance of any of his or her duties.

**Section 16. RELIANCE.** Each Director, officer, employee and agent of the Corporation shall, in the performance of his or her duties with respect to the Corporation, be fully justified and protected with regard to any act or failure to act in reliance in good faith upon the books of account or other records of the Corporation, upon an opinion of counsel or upon reports made to the Corporation by any of its officers or employees or by the adviser, accountants, appraisers or other experts or consultants selected by the Board of Directors or officers of the Corporation, regardless of whether such counsel or expert may also be a Director, unless such Director, officer, employee or agent has any knowledge concerning the matter in question which would cause such reliance to be unwarranted. In addition, Directors may rely on information from others in performing their duties to the extent set forth in Section 2-405 (or any successor provision) of the MGCL.

**Section 17. CERTAIN RIGHTS OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS.** The Directors that are not employed by the Corporation shall have no responsibility to devote their full time to the affairs of the Corporation. Any Director or officer, employee or agent of the Corporation, in

his or her personal capacity or in a capacity as an affiliate, employee, or agent of any other person, or otherwise, may have

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business interests and engage in business activities similar to or in addition to or in competition with those of or relating to the Corporation provided such Director or officer, employee or agent complies with the applicable terms of the then existing conflicts of interest policy of the Corporation.

## ARTICLE IV

### COMMITTEES

**Section 1. NUMBER, TENURE AND QUALIFICATIONS.** The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and other committees composed of one or more Directors as required by applicable law or applicable listing standards, to serve at the pleasure of the Board of Directors.

**Section 2. POWERS.** The Board of Directors may delegate to committees appointed under Section 1 of this Article IV any of the powers of the Board of Directors, except as prohibited by law.

**Section 3. MEETINGS.** Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors.

A majority of the members of any committee shall be present in person at any meeting of such committee in order to constitute a quorum for the transaction of business at such meeting, and the act of a majority of the committee members present shall be the act of such committee. The Board of Directors may designate a chairman of any committee, and such chairman or, in the absence of such chairman, any two members of any committee (if there are at least two members of the committee) may fix the time and place of its meeting unless the Board shall otherwise provide. In the absence or disqualification of any member of any such committee, the members thereof present at any meeting and not disqualified from voting, whether or not they constitute a quorum, may appoint another Director to act at the meeting in the place of such absent or disqualified member.

Each committee shall keep minutes of its proceedings and shall report the same to the Board of Directors at the next succeeding meeting, and any action by the committee shall be subject to revision and alteration by the Board of Directors, provided that no rights of third persons shall be affected by any such revision or alteration.

**Section 4. TELEPHONE MEETINGS.** Members of a committee of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if

all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

**Section 5. CONSENT BY COMMITTEES WITHOUT A MEETING.** Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic

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transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee.

**Section 6. VACANCIES.** Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternate members to replace any absent or disqualified member or to dissolve any such committee.

## ARTICLE V

### OFFICERS

**Section 1. GENERAL PROVISIONS.** The officers of the Corporation shall include a president, a secretary and a treasurer and may include a chairman of the Board of Directors, a vice chairman of the Board of Directors, a chief executive officer, one or more vice presidents, a chief operating officer, a chief financial officer, one or more assistant secretaries and one or more assistant treasurers. In addition, the Board of Directors may from time to time elect such other officers with such powers and duties as it shall deem necessary or desirable. The officers of the Corporation shall be elected annually by the Board of Directors, except that the chief executive officer or president may from time to time appoint one or more vice presidents, assistant secretaries, assistant treasurers or other officers. Each officer shall hold office until his or her successor is elected and qualifies or until his or her death, or his or her resignation or removal in the manner hereinafter provided. Any two or more offices except president and vice president may be held by the same person. In its discretion, the Board of Directors may leave unfilled any office. Election of an officer or agent shall not of itself create contract rights between the Corporation and such officer or agent.

**Section 2. REMOVAL AND RESIGNATION.** Any officer or agent of the Corporation may be removed, with or without cause, by the Board of Directors if in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Corporation may resign at any time by giving written notice of his or her resignation to the Board of Directors, the chairman of the Board of Directors, the president or the secretary. Any resignation shall take effect immediately upon its receipt or at such later time specified in the notice of resignation. The acceptance of a resignation shall not be necessary

to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Corporation.

**Section 3.VACANCIES.** A vacancy in any office may be filled by the Board of Directors for the balance of the term.

**Section 4.CHIEF EXECUTIVE OFFICER.** The Board of Directors may designate a chief executive officer. In the absence of such designation, the chairman of the Board of Directors, if any, shall be the chief executive officer of the Corporation. The chief executive officer shall have general responsibility for implementation of the policies of the Corporation, as determined by the Board of Directors, and for the management of the business and affairs of the Corporation. He or she may execute any deed, mortgage, bond,

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contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of chief executive officer and such other duties as may be prescribed by the Board of Directors from time to time.

**Section 5.CHIEF OPERATING OFFICER.** The Board of Directors may designate a chief operating officer. The chief operating officer shall have the responsibilities and duties as set forth by the Board of Directors or the chief executive officer.

**Section 6.CHIEF FINANCIAL OFFICER.** The Board of Directors may designate a chief financial officer. The chief financial officer shall have the responsibilities and duties as set forth by the Board of Directors or the chief executive officer.

**Section 7.CHAIRMAN OF THE BOARD.** The Board of Directors may designate a chairman of the Board of Directors. The chairman of the Board of Directors shall preside over the meetings of the Board of Directors and of the stockholders at which he shall be present. The chairman of the Board of Directors shall perform such other duties as may be assigned to him or her by the Board of Directors.

**Section 8.VICE CHAIRMAN OF THE BOARD.** In the absence of the chairman of the board or in the event of a vacancy in such office, the vice chairman of the board (or in the event there be more than one vice chairman of the board, the vice chairman of the board in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the chairman of the board and when so acting shall have all the powers of and be subject to all the restrictions upon the chairman of the board; and shall perform such other duties as from time to time may be assigned to such vice chairman of the board by the chairman of the board or by the Board of Directors.



**Section 9. PRESIDENT.** In the absence of a chief executive officer, the president shall in general supervise and control all of the business and affairs of the Corporation. In the absence of a designation of a chief operating officer by the Board of Directors, the president shall be the chief operating officer. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the Board of Directors from time to time.

**Section 10. VICE PRESIDENTS.** In the absence of the president or in the event of a vacancy in such office, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the president and when so acting shall have all the powers of and be subject to all the restrictions upon the president; and shall perform such other duties as from time to time may be assigned to such vice president by the chief executive officer, president or by the

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Board of Directors. The Board of Directors may designate one or more vice presidents as executive vice president or as vice president for particular areas of responsibility.

**Section 11. SECRETARY.** The secretary shall (a) keep the minutes of the proceedings of the stockholders, the Board of Directors and committees of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation, if any; (d) keep a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform such other duties as from time to time may be assigned to him by the chief executive officer, the president or by the Board of Directors.

**Section 12. TREASURER.** The treasurer shall have the custody of the funds and securities of the Corporation and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. In the absence of a designation of a chief financial officer by the Board of Directors, the treasurer shall be the chief financial officer of the Corporation.

The treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the president and Board

of Directors, at the regular meetings of the Board of Directors or whenever it may so require, an account of all his or her transactions as treasurer and of the financial condition of the Corporation.

If required by the Board of Directors, the treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, moneys and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

**Section 13. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS.** The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or treasurer, respectively, or by the chief executive officer, president or the Board of Directors. The assistant treasurers shall, if required by the Board of Directors, give bonds for the faithful performance of their duties in such sums and with such surety or sureties as shall be satisfactory to the Board of Directors.

**Section 14. SALARIES.** The salaries and other compensation of the officers shall be fixed from time to time by the Board of Directors or a committee thereof and no officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a Director.

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## ARTICLE VI

### CONTRACTS, LOANS, CHECKS AND DEPOSITS

**Section 1. CONTRACTS.** The Board of Directors or a committee thereof within the scope of its delegated authority may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the Corporation when authorized or ratified by action of the Board of Directors or such committee and executed by an authorized person.

**Section 2. CHECKS AND DRAFTS.** All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or agent of the Corporation in such manner as shall from time to time be determined by the Board of Directors.

**Section 3. DEPOSITS.** All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may designate.



## ARTICLE VII

### STOCK

**Section 1. CERTIFICATES.** Except as otherwise provided in these Bylaws, this Section shall not be interpreted to limit the authority of the Board of Directors to issue same or all of the Corporation's classes or series without certificates. Each stockholder, upon written request to the secretary of the Corporation, shall be entitled to a certificate or certificates which shall represent and certify the number of shares of each class of stock held by him, her or it in the Corporation. Each certificate shall be signed by the chairman of the board, chief executive officer, the president or a vice president and countersigned by the secretary or an assistant secretary or the treasurer or an assistant treasurer and may be sealed with the seal, if any, of the Corporation. The signatures may be either manual or facsimile. Certificates shall be consecutively numbered; and if the Corporation shall, from time to time, issue several classes of shares of capital stock, each class may have its own number series. A certificate is valid and may be issued whether or not an officer who signed it is still an officer when it is issued. Each certificate representing shares of capital stock which are restricted as to their transferability or voting powers, which are preferred or limited as to their dividends or as to their allocable portion of the assets upon liquidation or which are redeemable at the option of the Corporation, shall have a statement of such restriction, limitation, preference or redemption provision, or a summary thereof, plainly stated on the certificate. If the Corporation has authority to issue shares of beneficial interest of more than one class, the certificate shall contain on the face or back a full statement or summary of the designations and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption of each class of shares of beneficial interest and, if the Corporation is authorized to issue any preferred or special class in series,

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the differences in the relative rights and preferences between the shares of each series to the extent they have been set and the authority of the Board of Director to set the relative rights and preferences of subsequent series. In lieu of such statements or summaries, the Corporation may set forth upon the face or back of the certificate a statement that the Corporation will furnish to any stockholder, upon receipt of a written request and without charge, a full statement of such information.

**Section 2. TRANSFERS.** Upon surrender to the Corporation or the transfer agent of the Corporation of a stock certificate duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim

to or interest in such share or on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland.

Notwithstanding the foregoing, transfers of shares of any class of stock will be subject in all respects to the Charter of the Corporation and all of the terms and conditions contained therein.

**Section 3. REPLACEMENT CERTIFICATE.** Any officer designated by the Board of Directors may direct a new certificate to be issued in place of any certificate previously issued by the Corporation alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing the issuance of a new certificate, an officer designated by the Board of Directors may, in his or her discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or the owner's legal representative to advertise the same in such manner as he or she shall require and/or to give bond, with sufficient surety, to the Corporation to indemnify it against any loss or claim which may arise as a result of the issuance of a new certificate.

**Section 4. FIXING OF RECORD DATE.** The Board of Directors may set, in advance, a record date for the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or determining stockholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than ninety (90) days and, in the case of a meeting of stockholders, not less than ten (10) days, before the date on which the meeting or particular action requiring such determination of stockholders of record is to be held or taken.

Except as otherwise set forth in these Bylaws, if no record date is fixed for the determination of stockholders, (a) the record date for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall be at 5:00 pm, Eastern

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Time, on the day on which the notice of meeting is mailed or the thirtieth (30<sup>th</sup>) day before the meeting, whichever is the closer date to the meeting; and (b) the record date for the determination of stockholders entitled to receive payment of a dividend or an allotment of any other rights shall be 5:00 pm, Eastern Time, on the day on which the resolution of the Directors, declaring the dividend or allotment of rights, is adopted.

When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this section, such determination shall apply to any adjournment thereof, except when the meeting is adjourned to a date more than one hundred twenty (120) days after the record

date fixed for the original meeting, in either of which case a new record date shall be determined as set forth herein.

**Section 5. STOCK LEDGER.** The Corporation shall maintain at its principal office or at the office of its counsel, accountants or transfer agent, an original or duplicate stock ledger containing the name and address of each stockholder and the number of shares of each class held by such stockholder.

**Section 6. FRACTIONAL STOCK: ISSUANCE OF UNITS.** The Board of Directors may issue fractional stock or provide for the issuance of scrip, all on such terms and under such conditions as they may determine. Notwithstanding any other provision of the Charter or these Bylaws, the Board of Directors may issue units consisting of different securities of the Corporation. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Corporation, except that the Board of Directors may provide that for a specified period securities of the Corporation issued in such unit may be transferred on the books of the Corporation only in such unit.

## ARTICLE VIII

### ACCOUNTING YEAR

The Board of Directors shall have the power, from time to time, to fix the fiscal year of the Corporation by a duly adopted resolution.

## ARTICLE IX

### DISTRIBUTIONS

**Section 1. AUTHORIZATION.** Dividends and other distributions upon the stock of the Corporation may be authorized by the Board of Directors, subject to the provisions of law and the Charter of the Corporation. Dividends and other distributions may be paid in cash, property or shares of stock of the Corporation, subject to the provisions of law and the Charter.

**Section 2. CONTINGENCIES.** Before payment of any dividends or other distributions, there may be set aside out of any assets of the Corporation available for dividends or other distributions such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends or other distributions, for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors shall determine to be in the

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best interest of the Corporation, and the Board of Directors may modify or abolish any such reserve.

## ARTICLE X

### INVESTMENT POLICIES

Subject to the provisions of the Charter, the Board of Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Corporation as it shall deem appropriate in its sole discretion.

## ARTICLE XI

### PROHIBITED INVESTMENTS AND ACTIVITIES

Notwithstanding anything to the contrary in the Charter, the Corporation shall not enter into any transaction referred to in (i), (ii) or (iii) below which it does not believe is in the best interests of the Corporation, and will not, without the approval of a majority of the disinterested Directors, (i) acquire from or sell to any Director, officer or employee of the Corporation, any corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in which a Director, officer or employee of the Corporation owns more than a 5% interest or any affiliate of any of the foregoing, any of the assets or other property of the Corporation, except for the acquisition directly or indirectly of certain properties or interest therein, directly or indirectly, through entities in which it owns an interest in connection with the initial public offering of shares by the Corporation or pursuant to agreements entered into in connection with such offering, which properties shall be described in the prospectus relating to such initial public offering, (ii) make any loan to or borrow from any of the foregoing persons or (iii) engage in any other transaction with any of the foregoing persons. Each such transaction will be in all respects on such terms as are, at the time of the transaction and under the circumstances then prevailing, fair and reasonable to the Corporation. Subject to the provisions of the Charter, the Board of Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Corporation as it shall deem appropriate in its sole discretion.

## ARTICLE XII

### SEAL

**Section 1. SEAL.** The Board of Directors may authorize the adoption of a seal by the Corporation. The seal shall have inscribed thereon the name of the Corporation and the year of its formation. The Board of Directors may authorize one or more duplicate seals and provide for the custody thereof.

**Section 2. AFFIXING SEAL.** Whenever the Corporation is permitted or required to affix its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a

seal to place the word “(SEAL)” adjacent to the signature of the person authorized to execute the document on behalf of the Corporation.

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## **ARTICLE XIII**

### **INDEMNIFICATION AND ADVANCE OF EXPENSES**

To the maximum extent permitted by Maryland law in effect from time to time, the Corporation shall indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, shall pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any individual who is a present or former director or officer of the Corporation and who is made a party to the proceeding by reason of his or her service in that capacity or (b) any individual who, while a director or officer of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner or trustee of a corporation, real estate investment trust, partnership, joint venture, trust, limited liability company, employee benefit plan or any other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. The Corporation may, with the approval of its Board of Directors or any duly authorized committee thereof, provide such indemnification and pay or reimburse reasonable expenses in advance of final disposition of a proceeding to a person who served a predecessor of the Corporation in any of the capacities described in (a) or (b) above and to any employee or agent of the Corporation or a predecessor of the Corporation. The indemnification and payment or reimbursement of expenses provided in these Bylaws shall not be deemed exclusive of or limit in any way other rights to which any person seeking indemnification or payment of expenses may be or may become entitled under any bylaw, regulation, insurance, agreement or otherwise.

Neither the amendment nor repeal of this Article, nor the adoption or amendment of any other provision of the Bylaws or Charter of the Corporation inconsistent with this Article, shall apply to or affect in any respect the applicability of the preceding paragraph with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

Any indemnification or payment or reimbursement of the expenses permitted by their Bylaws shall be furnished in accordance with the procedures provided for indemnification or payment or reimbursement of expenses, as the case may be, under Section 2-418 of the MGCL for directors of Maryland Corporations.

## **ARTICLE XIV**

### **WAIVER OF NOTICE**

Whenever any notice is required to be given pursuant to the Charter of the Corporation or these Bylaws or pursuant to applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

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## ARTICLE XV

### AMENDMENT OF BYLAWS

The Board of Directors shall have the exclusive power to adopt, alter or repeal any provision of these Bylaws and to make new Bylaws.

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EXHIBIT 31.1

#### CERTIFICATION PURSUANT TO SECTION 302

#### OF THE SARBANES-OXLEY ACT OF 2002

#### FOR THE CHIEF EXECUTIVE OFFICER

I, David R. Folsom, 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 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 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 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 14, 2023 November 13, 2023

By: /s/ David R. Folsom

Name: David R. Folsom

Title: President and Chief Executive Officer

**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.
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 14, 2023 November 13, 2023

By: /s/ Anthony E. Domalski

Name: Anthony E. Domalski

Title: Chief Financial Officer

**EXHIBIT 31.3**

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**



## FOR THE CHIEF EXECUTIVE OFFICER

I, David R. Folsom, 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 14, 2023 November 13, 2023

By: /s/ David R. Folsom  
Name: David R. Folsom  
Title: President and Chief Executive Officer  
Sotherly Hotels, Inc., sole general  
partner of Sotherly Hotels LP

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**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.

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 14, 2023 November 13, 2023

By: /s/ Anthony E. Domalski

Name: Anthony E. Domalski

Title: Chief Financial Officer

Sotherly Hotels, Inc., sole general  
partner of Sotherly Hotels LP

**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, 2023 September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Folsom, 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 14, 2023 November 13, 2023

By: /s/ David R. Folsom

Name: David R. Folsom

Title: President and Chief Executive Officer

**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, 2023** **September 30, 2023** 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;
- (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 14, 2023** **November 13, 2023**

By: /s/ Anthony E. Domalski

Name: Anthony E. Domalski

Title: Chief Financial Officer

**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, 2023** **September 30, 2023** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Folsom, 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 14, 2023 November 13, 2023

By: /s/ David R. Folsom  
Name: David R. Folsom  
Title: President and Chief Executive Officer  
Sotherly Hotels Inc., sole general  
partner of Sotherly Hotels LP

**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, 2023 September 30, 2023 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 14, 2023 November 13, 2023

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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