CIM Commercial Trust Corp
Form 424B3
August 09, 2018

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-210880

CIM COMMERCIAL TRUST CORPORATION

SUPPLEMENT NO. 2, DATED AUGUST 9, 2018

TO THE PROSPECTUS, DATED APRIL 11, 2018

This prospectus supplement (this Supplement No. 2 ) is part of the prospectus of CIM Commercial Trust Corporation (the Company ), dated April 11, 2018 (the Prospectus ), as supplemented by Supplement No. 1, dated May 14, 2018 ( Supplement No. 1 ). This Supplement No. 2 supplements certain information contained in the Prospectus. This Supplement No. 2 should be read, and will be delivered, with the Prospectus and Supplement No. 1. Unless otherwise defined in this Supplement No. 2, capitalized terms used in this Supplement No. 2 shall have the same meanings as set forth in the Prospectus.

The purpose of this Supplement No. 2 is to:

- attach as Annex A the Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (excluding the exhibits thereto) filed with the Securities and Exchange Commission ( SEC ) on August 9, 2018; and

- attach as Annex B a Current Report on Form 8-K (excluding the exhibits thereto) that the Company filed with the SEC on August 9, 2018.

Annex A

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One):**

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

**For the quarterly period ended June 30, 2018**

**OR**

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

**For the transition period from to**

**Commission File Number 1-13610**

# CIM COMMERCIAL TRUST CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Maryland** | **75-6446078** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **17950 Preston Road, Suite 600, Dallas, TX 75252** | **(972) 349-3200** |
| (Address of principal executive offices) | (Registrant s telephone number) |

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

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

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 Exchange Act.

| | | |
|---|---|---|
| Large accelerated filer o | Accelerated filer o | Non-accelerated filer o |
| Smaller reporting company x | Emerging growth company o | (Do not check if a smaller reporting 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. o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

As of August 3, 2018, the Registrant had outstanding 43,795,073 shares of common stock, par value $0.001 per share.

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**INDEX**

# PART I

## Financial Information

## Item 1.

## Financial Statements

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**(In thousands, except share and per share amounts)**

| | | June 30, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| | | (Unaudited) | | |
| **ASSETS** | | | | |
| Investments in real estate, net | $ | 1,075,931 | $ | 957,725 |
| Cash and cash equivalents | | 91,192 | | 129,310 |
| Restricted cash | | 22,800 | | 27,008 |
| Loans receivable, net | | 71,606 | | 81,056 |
| Accounts receivable, net | | 9,169 | | 13,627 |
| Deferred rent receivable and charges, net | | 86,162 | | 84,748 |
| Other intangible assets, net | | 11,625 | | 6,381 |
| Other assets | | 19,876 | | 36,533 |
| TOTAL ASSETS | $ | 1,388,361 | $ | 1,336,388 |
| **LIABILITIES, REDEEMABLE PREFERRED STOCK, AND EQUITY** | | | | |
| LIABILITIES: | | | | |
| Debt, net | $ | 666,932 | $ | 630,852 |
| Accounts payable and accrued expenses | | 27,391 | | 26,394 |
| Intangible liabilities, net | | 3,829 | | 1,070 |
| Due to related parties | | 9,203 | | 8,814 |
| Other liabilities | | 14,529 | | 14,629 |
| Total liabilities | | 721,884 | | 681,759 |
| COMMITMENTS AND CONTINGENCIES (Note 15) | | | | |
| REDEEMABLE PREFERRED STOCK: Series A, $0.001 par value; 36,000,000 shares authorized; 1,845,473 and 1,842,353 shares issued and outstanding, respectively, at June 30, 2018 and 1,225,734 and 1,224,712 shares issued and outstanding, respectively, at December 31, 2017; liquidation preference of $25.00 per share, subject to adjustment | | 42,037 | | 27,924 |
| EQUITY: | | | | |
| Series A cumulative redeemable preferred stock, $0.001 par value; 36,000,000 shares authorized; 308,775 and 307,510 shares issued and outstanding, respectively, at June 30, 2018 and 61,435 and 60,592 shares issued and outstanding, respectively, at December 31, 2017; liquidation preference of $25.00 per share, subject to adjustment | | 7,637 | | 1,508 |
| Series L cumulative redeemable preferred stock, $0.001 par value; 9,000,000 shares authorized; 8,080,740 shares issued and outstanding at June 30, 2018 and December 31, 2017; liquidation preference of $28.37 per share, subject to adjustment | | 229,251 | | 229,251 |
| Common stock, $0.001 par value; 900,000,000 shares authorized; 43,795,073 and 43,784,939 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively | | 44 | | 44 |
| Additional paid-in capital | | 792,245 | | 792,631 |
| Accumulated other comprehensive income | | 3,221 | | 1,631 |
| Distributions in excess of earnings | | (408,797) | | (399,250) |
| Total stockholders equity | | 623,601 | | 625,815 |
| Noncontrolling interests | | 839 | | 890 |
| Total equity | | 624,440 | | 626,705 |

| | | | | |
|---|---|---|---|---|
| TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK, AND EQUITY | $ | 1,388,361 | $ | 1,336,388 |

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

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Operations**

**(In thousands, except per share amounts)**

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| | (Unaudited) | | | |
| REVENUES: | | | | |
| Rental and other property income | $ 34,900 | $ 46,124 | $ 68,697 | $ 97,183 |
| Hotel income | 10,160 | 9,832 | 19,849 | 19,582 |
| Expense reimbursements | 3,351 | 2,526 | 4,960 | 5,556 |
| Interest and other income | 3,148 | 2,817 | 6,451 | 5,927 |
| | 51,559 | 61,299 | 99,957 | 128,248 |
| EXPENSES: | | | | |
| Rental and other property operating | 20,780 | 27,249 | 38,800 | 50,209 |
| Asset management and other fees to related parties | 6,143 | 7,863 | 12,354 | 16,563 |
| Interest | 6,811 | 9,513 | 13,444 | 19,286 |
| General and administrative | 1,915 | 1,647 | 5,291 | 3,326 |
| Transaction costs (Note 15) | 344 | 11,615 | 344 | 11,628 |
| Depreciation and amortization | 13,325 | 14,761 | 26,473 | 31,992 |
| Impairment of real estate (Note 2) | | 13,100 | | 13,100 |
| | 49,318 | 85,748 | 96,706 | 146,104 |
| Gain on sale of real estate (Note 3) | | 116,283 | | 304,017 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 2,241 | 91,834 | 3,251 | 286,161 |
| Provision for income taxes | 292 | 462 | 680 | 854 |
| NET INCOME | 1,949 | 91,372 | 2,571 | 285,307 |
| Net income attributable to noncontrolling interests | (12) | (9) | (16) | (14) |
| NET INCOME ATTRIBUTABLE TO THE COMPANY | 1,937 | 91,363 | 2,555 | 285,293 |
| Redeemable preferred stock dividends accumulated (Note 10) | (3,152) | | (6,304) | |
| Redeemable preferred stock dividends declared (Note 10) | (662) | (72) | (1,155) | (103) |
| Redeemable preferred stock redemptions (Note 10) | 1 | | 2 | |
| NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS | $ (1,876) | $ 91,291 | $ (4,902) | $ 285,190 |
| NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS PER SHARE: | | | | |
| Basic | $ (0.04) | $ 1.16 | $ (0.11) | $ 3.50 |
| Diluted | $ (0.04) | $ 1.16 | $ (0.11) | $ 3.50 |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING: | | | | |
| Basic | 43,791 | 78,871 | 43,788 | 81,445 |
| Diluted | 43,791 | 78,871 | 43,788 | 81,445 |

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

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**(In thousands)**

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| | (Unaudited) | | | |
| NET INCOME | $ 1,949 | $ 91,372 | $ 2,571 | $ 285,307 |
| Other comprehensive income (loss): cash flow hedges | 407 | (440) | 1,590 | 1,112 |
| COMPREHENSIVE INCOME | 2,356 | 90,932 | 4,161 | 286,419 |
| Comprehensive income attributable to noncontrolling interests | (12) | (9) | (16) | (14) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY | $ 2,344 | $ 90,923 | $ 4,145 | $ 286,405 |

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

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Equity**

**(In thousands, except share and per share amounts)**

| | Six Months Ended June 30, 2018 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Preferred Stock | | | | | | | | |
| | | | Series A | | Series L | | | | | | |
| | Shares | Par Value | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Distributions in Excess of Earnings | Non-controlling Interests | Total Equity |
| | | | | | | (Unaudited) | | | | | |
| **Balances, December 31, 2017** | 43,784,939 | $ 44 | 60,592 | $ 1,508 | 8,080,740 | $ 229,251 | $ 792,631 | $ 1,631 | $ (399,250) | $ 890 | $ 626,705 |
| Distributions to noncontrolling interests | | | | | | | | | | (67) | (67) |
| Stock-based compensation expense | 10,134 | | | | | | 86 | | | | 86 |
| Common dividends ($0.25 per share) | | | | | | | | | (10,947) | | (10,947) |
| Issuance of Series A Preferred Warrants | | | | | | | 40 | | | | 40 |
| Dividends to holders of Series A Preferred Stock ($0.6875 per share) | | | | | | | | | (1,155) | | (1,155) |
| Reclassification of Series A Preferred Stock to permanent equity | | | 246,918 | 6,129 | | | (514) | | | | 5,615 |
| Redemption of Series A Preferred Stock | | | | | | | 2 | | | | 2 |
| Other comprehensive income | | | | | | | | 1,590 | | | 1,590 |
| Net income | | | | | | | | | 2,555 | 16 | 2,571 |
| **Balances, June 30, 2018** | 43,795,073 | $ 44 | 307,510 | $ 7,637 | 8,080,740 | $ 229,251 | $ 792,245 | $ 3,221 | $ (408,797) | $ 839 | $ 624,440 |

| | Six Months Ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | |
| | Shares | Par Value | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Distributions in Excess of Earnings | Non-controlling Interests | Total Equity |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | **(Loss)** (Unaudited) | | | | | | |
| **Balances, December 31, 2016** | 84,048,081 | $ | 84 | $ | 1,566,073 | $ | (509) | $ | (599,971) | $ | 912 | $ | 966,589 |
| Distributions to noncontrolling interests | | | | | | | | | | | (37) | | (37) |
| Stock-based compensation expense | 9,585 | | | | 78 | | | | | | | | 78 |
| Share repurchase | (26,181,818) | | (26) | | (489,027) | | | | (86,947) | | | | (576,000) |
| Special cash dividends paid to certain common stockholders ($2.26 per share) (Note 11) | | | | | | | | | (4,872) | | | | (4,872) |
| Common dividends ($0.34375 per share) | | | | | | | | | (25,620) | | | | (25,620) |
| Issuance of Series A Preferred Warrants | | | | | 27 | | | | | | | | 27 |
| Dividends to holders of Series A Preferred Stock ($0.6875 per share) | | | | | | | | | (103) | | | | (103) |
| Other comprehensive income | | | | | | | 1,112 | | | | | | 1,112 |
| Net income | | | | | | | | | 285,293 | | 14 | | 285,307 |
| **Balances, June 30, 2017** | 57,875,848 | $ | 58 | $ | 1,077,151 | $ | 603 | $ | (432,220) | $ | 889 | $ | 646,481 |

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

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**(In thousands)**

| | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 2,571 | $ 285,307 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred rent and amortization of intangible assets, liabilities and lease inducements | (2,807) | (2,662) |
| Depreciation and amortization | 26,473 | 31,992 |
| Transfer of right to collect supplemental real estate tax reimbursements | | (5,097) |
| Gain on sale of real estate | | (304,017) |
| Impairment of real estate | | 13,100 |
| Straight-line rent, below-market ground lease and amortization of intangible assets | (18) | 881 |
| Amortization of deferred loan costs | 386 | 808 |
| Amortization of premiums and discounts on debt | (109) | (458) |
| Unrealized premium adjustment | 1,436 | 722 |
| Amortization and accretion on loans receivable, net | (168) | 140 |
| Bad debt expense | 151 | 187 |
| Deferred income taxes | 21 | 459 |
| Stock-based compensation | 86 | 78 |
| Loans funded, held for sale to secondary market | (21,345) | (17,906) |
| Proceeds from sale of guaranteed loans | 29,098 | 16,737 |
| Principal collected on loans subject to secured borrowings | 1,501 | 4,935 |
| Other operating activity | (525) | (441) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and interest receivable | 4,340 | (2,682) |
| Other assets | (2,283) | (1,653) |
| Accounts payable and accrued expenses | (861) | 5,631 |
| Deferred leasing costs | (1,341) | (2,557) |
| Other liabilities | (82) | (1,748) |
| Due to related parties | 389 | 4 |
| Net cash provided by operating activities | 36,913 | 21,760 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to investments in real estate | (8,053) | (9,915) |
| Acquisition of real estate | (112,048) | |
| Proceeds from sale of real estate, net | | 642,886 |
| Loans funded | (7,115) | (5,969) |
| Principal collected on loans | 6,389 | 5,496 |
| Other investing activity | 76 | 67 |
| Net cash (used in) provided by investing activities | (120,751) | 632,565 |

(Continued)

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows (Continued)**

**(In thousands)**

| | Six Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|---|---|---|---|---|
| | (Unaudited) | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Payment of mortgages payable | | | | (65,569) |
| Payment of principal on SBA 7(a) loan-backed notes | | (597) | | |
| Proceeds from SBA 7(a) loan-backed notes | | 38,200 | | |
| Payment of principal on secured borrowings | | (1,501) | | (4,935) |
| Proceeds from secured borrowings | | 772 | | |
| Payment of deferred preferred stock offering costs | | (857) | | (862) |
| Payment of deferred loan costs | | (1,071) | | (4) |
| Payment of common dividends | | (10,947) | | (25,620) |
| Payment of special cash dividends | | (1,575) | | (4,872) |
| Repurchase of Common Stock | | | | (576,000) |
| Net proceeds from issuance of Series A Preferred Warrants | | 40 | | 27 |
| Net proceeds from issuance of Series A Preferred Stock | | 19,923 | | 5,645 |
| Payment of preferred stock dividends | | (742) | | (40) |
| Redemption of Series A Preferred Stock | | (66) | | |
| Noncontrolling interests distributions | | (67) | | (37) |
| Net cash provided by (used in) financing activities | | 41,512 | | (672,267) |
| Change in cash balances included in assets held for sale | | | | (2,955) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | | (42,326) | | (20,897) |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH: | | | | |
| Beginning of period | | 156,318 | | 176,609 |
| End of period | $ | 113,992 | $ | 155,712 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH TO THE CONSOLIDATED BALANCE SHEETS: | | | | |
| Cash and cash equivalents | $ | 91,192 | $ | 129,006 |
| Restricted cash | | 22,800 | | 26,706 |
| Total cash and cash equivalents and restricted cash | $ | 113,992 | $ | 155,712 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | | | |
| Cash paid during the period for interest | $ | 13,124 | $ | 19,303 |
| Federal income taxes paid | $ | 247 | $ | 259 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | | | |
| Additions to investments in real estate included in accounts payable and accrued expenses | $ | 11,835 | $ | 6,883 |
| Net increase in fair value of derivatives applied to other comprehensive income | $ | 1,590 | $ | 1,112 |
| Reduction of loans receivable and secured borrowings due to the SBA s repurchase of the guaranteed portion of a loan | $ | | $ | 534 |
| Additions to deferred costs included in accounts payable and accrued expenses | $ | 276 | $ | |
| Additions to preferred stock offering costs included in accounts payable and accrued expenses | $ | 334 | $ | 1,387 |
| Accrual of dividends payable to preferred stockholders | $ | 662 | $ | 72 |
| Preferred stock offering costs offset against redeemable preferred stock in temporary equity | $ | 140 | $ | 21 |
| Reclassification of Series A Preferred Stock from temporary equity to permanent equity | $ | 5,615 | $ | |

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

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements as of June 30, 2018 and December 31, 2017, and**

**for the Three and Six Months Ended June 30, 2018 and 2017 (Unaudited)**

**1. ORGANIZATION AND OPERATIONS**

CIM Commercial Trust Corporation ( CIM Commercial or the Company ), a Maryland corporation and real estate investment trust ( REIT ), together with its wholly-owned subsidiaries ( we, us or our ), primarily acquires, owns, and operates Class A and creative office assets in vibrant and improving urban communities throughout the United States. These communities are located in areas that include traditional downtown areas and suburban main streets, which have high barriers to entry, high population density, improving demographic trends and a propensity for growth. We were originally organized in 1993 as PMC Commercial Trust ( PMC Commercial ), a Texas real estate investment trust.

On July 8, 2013, PMC Commercial entered into a merger agreement (the Merger Agreement ) with CIM Urban REIT, LLC ( CIM REIT ), an affiliate of CIM Group, L.P. ( CIM Group or CIM ), and subsidiaries of the respective parties. CIM REIT was a private commercial REIT and was the owner of CIM Urban Partners, L.P. ( CIM Urban ). The transaction (the Merger ) was completed on March 11, 2014 (the Acquisition Date ). As a result of the Merger and related transactions, CIM Urban became our wholly-owned subsidiary.

Our common stock, $0.001 par value per share ( Common Stock ), is currently traded on the Nasdaq Global Market ( Nasdaq ) and on the Tel Aviv Stock Exchange (the TASE ), in each case under the ticker symbol CMCT. Our Series L preferred stock, $0.001 par value per share ( Series L Preferred Stock ), is currently traded on Nasdaq and on the TASE, in each case under the ticker symbol CMCTP. We have authorized for issuance 900,000,000 shares of common stock and 100,000,000 shares of preferred stock ( Preferred Stock ).

CIM Commercial has qualified and intends to continue to qualify as a REIT, as defined in the Internal Revenue Code of 1986, as amended.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For more information regarding our significant accounting policies and estimates, please refer to Basis of Presentation and Summary of Significant Accounting Policies contained in Note 2 to our consolidated financial statements for the year ended December 31, 2017, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) on March 12, 2018.

**Interim Financial Information** The accompanying interim consolidated financial statements of CIM Commercial have been prepared by our management in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Certain information and note disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements. The accompanying financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. Our accompanying interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed with the SEC on March 12, 2018.

**Principles of Consolidation** The consolidated financial statements include the accounts of CIM Commercial and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements as of June 30, 2018 and December 31, 2017, and**

**for the Three and Six Months Ended June 30, 2018 and 2017 (Unaudited)**

**Investments in Real Estate** Real estate acquisitions are recorded at cost as of the acquisition date. Costs related to the acquisition of properties are expensed as incurred for acquisitions that occurred prior to October 1, 2017. For any acquisition occurring on or after October 1, 2017, we have and will conduct an analysis to determine if the acquisition constitutes a business combination or an asset purchase. If the acquisition constitutes a business combination, then the transaction costs will be expensed as incurred, and if the acquisition constitutes an asset purchase, then the transaction costs will be capitalized. Investments in real estate are stated at depreciated cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives as follows:

| | |
|---|---|
| Buildings and improvements | 15 - 40 years |
| Furniture, fixtures, and equipment | 3 - 5 years |
| Tenant improvements | Shorter of the useful lives or the terms of the related leases |

Improvements and replacements are capitalized when they extend the useful life, increase capacity, or improve the efficiency of the asset. Ordinary repairs and maintenance are expensed as incurred.

Investments in real estate are evaluated for impairment on a quarterly basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The estimated fair value of the asset group identified for step two of the impairment testing under GAAP is based on either the income approach with market discount rate, terminal capitalization rate and rental rate assumptions being most critical, or on the sales comparison approach to similar properties. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. We recognized impairment of long-lived assets of $0 and $13,100,000 during the three months ended June 30, 2018 and 2017, respectively, and $0 and $13,100,000 during the six months ended June 30, 2018 and 2017, respectively.

**Derivative Financial Instruments** As part of our risk management and operational strategies, from time to time, we may enter into derivative contracts with various counterparties. All derivatives are recognized on the balance sheet at their estimated fair value. On the date that we enter into a derivative contract, we designate the derivative as a fair value hedge, a cash flow hedge, a foreign currency fair value or cash flow hedge, a hedge of a net investment in a foreign operation, or a trading or non-hedging instrument.

Changes in the estimated fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are initially recorded in other comprehensive income ( OCI ), and are subsequently reclassified into earnings as a component of interest expense when the variability of cash flows of the hedged transaction affects earnings (e.g., when periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the estimated fair value of the derivative differ from the variability in the cash flows of the forecasted transaction) is recognized in current-period earnings as a component of interest expense. When an interest rate swap designated as a cash flow hedge no longer qualifies for hedge accounting, we recognize changes in the estimated fair value of the hedge previously deferred to accumulated other comprehensive income ( AOCI ), along with any changes in estimated fair value occurring thereafter, through earnings. We classify cash flows from interest rate swap agreements as net cash provided by operating activities on the consolidated statements of cash flows as our accounting policy is to present the cash flows from the hedging instruments in the same category in the consolidated statements of cash flows as the category for the cash flows from the hedged items. See Note 12 for disclosures about our derivative financial instruments and hedging activities.

**Revenue Recognition** We use a five-step model to recognize revenue for contracts with customers. The five-step model requires that we (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) we satisfy the performance obligation.

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements as of June 30, 2018 and December 31, 2017, and**

**for the Three and Six Months Ended June 30, 2018 and 2017 (Unaudited)**

*Revenue from leasing activities*

All leases are classified as operating leases and minimum rents are recognized on a straight-line basis over the terms of the leases when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is recorded as deferred rent. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is considered the owner of the improvements, any tenant improvement allowance that is funded is treated as an incentive. Lease incentives paid to tenants are included in other assets and amortized as a reduction to rental revenue on a straight-line basis over the term of the related lease.

Reimbursements from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes, insurance, and other recoverable costs, are recognized as revenue in the period the expenses are incurred. Tenant reimbursements are recognized and presented on a gross basis when we are primarily responsible for fulfilling the promise to provide the specified good or service and control that specified good or service before it is transferred to the tenant.

In addition to minimum rents, certain leases provide for additional rents based upon varying percentages of tenants sales in excess of annual minimums. Percentage rent is recognized once lessees specified sales targets have been met.

We derive parking revenues from leases with third-party operators. Our parking leases provide for additional rents based upon varying percentages of tenants sales in excess of annual minimums. Parking percentage rent is recognized once lessees specific sales targets have been met.

*Revenue from lending activities*

Interest income included in interest and other income is comprised of interest earned on loans and our short-term investments and the accretion of net loan origination fees and discounts. Interest income on loans is accrued as earned with the accrual of interest suspended when the related loan becomes a Non-Accrual Loan (as defined below).

*Revenue from hotel activities*

Hotel revenue is recognized upon establishment of a contract with a customer. At contract inception, the Company assesses the goods and services promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a good or service (or bundle of goods or services) that is distinct. To identify the performance obligations, the Company considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or implied by customary business practices. Various performance obligations of hotel revenues can be categorized as follows:

- cancellable and noncancelable room revenues from reservations and

- ancillary services including facility usage and food or beverage.

Cancellable reservations represent a single performance obligation of providing lodging services at the hotel. The Company satisfies its performance obligation and recognizes revenues associated with these reservations over time as services are rendered to the customer. The Company satisfies its performance obligation and recognizes revenues associated with noncancelable reservations at the earlier of (i) the date on which the customer cancels the reservation or (ii) over time as services are rendered to the customer.

**CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements as of June 30, 2018 and December 31, 2017, and**

**for the Three and Six Months Ended June 30, 2018 and 2017 (Unaudited)**

Ancillary services include facilities usage and providing food and beverage. The Company satisfies its performance obligation and recognizes revenues associated with these services at a point in time when the good or service is delivered to the customer.

At inception of these contracts with customers for hotel revenues, the contractual price is equivalent to the transaction price as there are no elements of variable consideration to estimate.

Amounts recognized for hotel revenues were $10,160,000 and $9,832,000 for the three months ended June 30, 2018 and 2017, respectively, and $19,849,000 and $19,582,000 for the six months ended June 30, 2018 and 2017, respectively. Below is a reconciliation of the hotel revenue from contracts with customers to the total hotel segment revenue disclosed in Note 18:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | (in thousands) | | | |
| **Hotel properties** | | | | |
| Hotel income | $ 10,160 | $ 9,832 | $ 19,849 | $ 19,582 |
| Rental and other property income | 733 | 738 | 1,496 | 1,490 |
| Interest and other income | 54 | 34 | 93 | 50 |
| Hotel revenues | $ 10,947 | $ 10,604 | $ 21,438 | |