

CIM COMMERCIAL TRUST CORP

FORM 424B3

(Prospectus filed pursuant to Rule 424(b)(3))

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CIM COMMERCIAL TRUST CORPORATION

**SUPPLEMENT NO. 9, DATED AUGUST 14, 2017,
TO THE PROSPECTUS, DATED JULY 1, 2016**

This prospectus supplement (this “Supplement No. 9”) is part of the prospectus of CIM Commercial Trust Corporation (the “Company”), dated July 1, 2016 (the “Prospectus”), as supplemented by Supplement No. 6, dated April 14, 2017 (“Supplement No. 6”), Supplement No. 7, dated May 12, 2017 (“Supplement No. 7”), and Supplement No. 8, dated July 14, 2017 (“Supplement No. 8”). This Supplement No. 9 supplements certain information contained in the Prospectus. This Supplement No. 9 should be read, and will be delivered, with the Prospectus, Supplement No. 6, Supplement No. 7 and Supplement No. 8. Unless otherwise defined in this Supplement No. 9, capitalized terms used in this Supplement No. 9 shall have the same meanings as set forth in the Prospectus.

The purpose of this Supplement No. 9 is to:

- update the Applicable NAV, as defined in the Prospectus; and
 - attach as Annex A the Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (excluding the exhibits thereto) filed with the Securities and Exchange Commission on August 9, 2017.
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PROSPECTUS UPDATES

Estimated Net Asset Value

The following disclosure replaces in its entirety the “Estimated Net Asset Value” section of the Prospectus:

As of the date hereof, we have established an estimated NAV per share of Common Stock of \$22.56. Neither FINRA nor the SEC provides rules on the methodology we must use to determine our estimated NAV per share. The determination of estimated NAV involves a number of subjective assumptions, estimates and judgments that may not be accurate or complete. We believe there is no established practice among public REITs for calculating estimated NAV. Different firms using different property-specific, general real estate, capital markets, economic and other assumptions, estimates and judgments could derive an estimated NAV that could be significantly different from our estimated NAV. Thus, other public REITs’ methodologies used to calculate estimated NAV may differ materially from ours. Additionally, the estimated NAV does not give effect to changes in value, investment activities, capital activities, indebtedness levels, and other various activities occurring after June 30, 2017 that would have an impact on our estimated NAV.

Overview

The estimated NAV per share of \$22.56 was calculated by our Advisor, relying in part on appraisals of our real estate investments and the assets of our lending segment. The table below sets forth the material items included in the calculation of our estimated NAV.

	(\$ in thousands, except per share amount) (unaudited)
Investments in real estate—at fair value (1)	\$ 2,019,159
Loans receivable—at fair value (1)	72,080
Debt (1)	(872,461)
Cash and other assets net of other liabilities (1)	95,065
Redeemable preferred stock (1)	(7,050)
Noncontrolling interests (1)	(1,047)
Estimated NAV available to common shareholders	\$ 1,305,746
Shares of Common Stock outstanding (1)	57,875,848
Estimated NAV per share of Common Stock	\$ 22.56

(1) As of June 30, 2017.

We engaged various third party appraisal firms to perform appraisals of our real estate investments and the assets of our lending segment as of December 31, 2016. These appraisals were performed in accordance with standards set forth by the American Institute of Certified Public Accountants. Each of our appraisals were prepared by personnel who are subject to and in compliance with the code of professional ethics and the standards of professional conduct set forth by the certification programs of the professional appraisal organizations of which they are members.

The estimated per share NAV does not represent the fair value of our assets less liabilities in accordance with U.S. generally accepted accounting principles, and such estimated per share NAV is not a representation, warranty or guarantee that (i) the exercise price for the Warrants, which is established based on Applicable NAV, will be indicative of the price at which the shares of Common Stock for which the Warrants may be exercised would trade, or that the shares of Common Stock would trade at the estimated per share NAV; (ii) a stockholder would be able to realize an amount equal to the estimated per share NAV if such stockholder attempts to sell his or her shares of Common Stock; (iii) a stockholder would ultimately realize distributions per share equal to the estimated per share NAV upon our liquidation or sale; or (iv) a third party would offer the estimated per share NAV in an arm’s-length transaction to purchase all or substantially all of our shares of Common Stock.

Further, the estimated per share NAV was calculated as of a moment in time, and, although the values of shares of our Common Stock will fluctuate over time as a result of, among other things, developments related to individual assets, purchases and sale of additional assets, changes in the real estate and capital markets, distribution by us and changes in corporate policies and strategies, we do not undertake to update the estimated per share NAV on a regular basis.

Fair Value of Real Estate

As of June 30, 2017, our real estate portfolio consisted of (i) 20 office properties (including one parking garage and two development sites, one of which is being used as a parking lot), totaling approximately 4.1 million rentable square feet, (ii) two multifamily properties comprised of 418 units, and (iii) one hotel with 503 rooms. As of June 30, 2017, our investments in real estate had an aggregate estimated fair value of approximately \$2,019,159,000, which, except for two multifamily properties and two office properties held for sale at August 11, 2017, are based on appraisals obtained as of December 31, 2016 plus capital expenditures, at cost, incurred thereafter.

The fair values of all our real estate assets, with the exception of our parking garage, the two development sites and the two multifamily properties and two office properties held for sale at August 11, 2017, were determined using the income capitalization approach and more specifically utilizing discounted cash flow analyses as the primary methodology with the sales comparison approach being used as a secondary methodology. The fair value of our parking garage was determined using the income capitalization approach and more specifically utilizing the direct capitalization methodology with the sales comparison approach being used as a secondary methodology. The sales comparison approach was utilized exclusively to value the two development sites. The fair values of our two multifamily properties and two office properties held for sale at August 11, 2017 were based on negotiated sales prices with unrelated third parties.

The discounted cash flow approach to valuing real estate investments involves projecting annual cash flows over a defined holding period as well as calculating a residual value for an investment at the end of the holding period. The residual value is calculated by applying a capitalization rate to the projected net operating income in the year following the projected sale. The present value of the future cash flows, including the residual value, is then calculated using an appropriate discount rate and the summation of these present values is the basis for an investment's fair value.

The direct capitalization approach to valuing real estate investments involves applying a capitalization rate to current annual net operating income with the resulting value being the basis for an investment's fair value.

The sales comparison approach to valuing real estate investments uses actual sales prices for comparable assets to determine the investment's fair value. The sales prices of the comparable assets are adjusted to reflect their condition relative to the subject property, the time and resources necessary to ready the comparable properties for sale, and the terms of the comparable properties sales.

The ranges of certain key assumptions used in the fair value measurement of the investments in real estate as of June 30, 2017 were as follows:

<u>Asset Type / Key Assumption</u>	<u>Range</u>	<u>Weighted Average</u>
Office and hotel assets		
Discount rate	6.5% - 9.5%	7.6%
Capitalization rate	5.8% - 8.3%	6.6%

Fair Value of Loans Receivable

As of June 30, 2017, we held 176 loans whose aggregate fair value was approximately \$72,080,000, which is based on an appraisal obtained as of December 31, 2016 plus loan activity, at cost, incurred thereafter. The fair values were determined using a present value technique for the anticipated future cash flows of the loans using certain key assumptions. Credit risk, or lack of credit risk in the case of our government guaranteed loans, was considered in the determination of the key assumptions used to fair value our loans receivable.

Debt

As of June 30, 2017, our outstanding debt consisted of fixed rate property-level mortgage notes payable, floating rate junior subordinated notes, and a floating rate term loan facility whose interest rate has been effectively converted to a fixed rate through interest rate swaps.

As of June 30, 2017, the carrying amount of our fixed rate mortgages payable was approximately \$464,902,000, net of deferred loan costs, and the carrying amount of our floating rate debt which includes our junior subordinated notes, unsecured credit facility and term loan facility was approximately \$407,559,000, net of deferred loan costs.

The fair value of our debt is calculated for disclosure purposes only and we do not include the mark to market adjustments related to our debt in our estimated NAV calculation. As of June 30, 2017, the estimated fair value of our debt was approximately \$3,637,000 higher than the carrying amount of our debt net of deferred loan costs.

Fair Value of Cash, Other Assets and Other Liabilities

As of June 30, 2017, the carrying amounts of our cash, other assets and other liabilities approximates their fair values due to the liquid nature of such assets and the short-term nature of such liabilities.

Redeemable Preferred Stock

As of June 30, 2017, our redeemable preferred stock consisted of gross proceeds allocated to the Series A Preferred Stock of \$7,668,000 offset by specifically identifiable issuance costs and non-issuance specific costs allocated to the Series A Preferred Stock of \$594,000 and \$24,000, respectively.

Sensitivity Analysis

While we believe that the assumptions used in determining the appraised values of our investments in real estate are reasonable, certain changes in these assumptions could impact the calculation of such values.

The table below illustrates the impact on the estimated NAV per share if the capitalization rates or discount rates were adjusted by 25 basis points, assuming all other factors remain unchanged.

	Change in the NAV Per Share Due To	
	Decrease of 25 bps	Increase of 25 bps
Capitalization rates	\$ 0.77	\$ (0.69)
Discount rates	\$ 0.60	\$ (0.53)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One):

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number 1-13610

CIM COMMERCIAL TRUST CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

17950 Preston Road, Suite 600, Dallas, TX 75252
(Address of principal executive offices)

75-6446078
(I.R.S. Employer
Identification No.)

(972) 349-3200
(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 NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

(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.

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

As of August 4, 2017, the Registrant had outstanding 57,875,848 shares of common stock, par value \$0.001 per share.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

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PART I
Financial Information

Item 1.
Financial Statements

A- 1

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share and per share data)

	June 30, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Investments in real estate, net	\$ 1,141,460	\$ 1,606,942
Cash and cash equivalents	129,006	144,449
Restricted cash	26,706	32,160
Accounts receivable, net	15,511	13,086
Deferred rent receivable and charges, net	95,369	116,354
Other intangible assets, net	15,610	17,623
Other assets	89,155	92,270
Assets held for sale, net	125,138	—
TOTAL ASSETS	\$ 1,637,955	\$ 2,022,884
LIABILITIES, REDEEMABLE PREFERRED STOCK AND EQUITY		
LIABILITIES:		
Debt, net	\$ 846,833	\$ 967,886
Accounts payable and accrued expenses	42,287	39,155
Intangible liabilities, net	1,138	3,576
Due to related parties	10,005	10,196
Other liabilities	31,275	34,056
Liabilities associated with assets held for sale, net	52,886	—
Total liabilities	984,424	1,054,869
COMMITMENTS AND CONTINGENCIES (Note 16)		
REDEEMABLE PREFERRED STOCK: Series A, \$0.001 par value; 36,000,000 shares authorized; 308,775 and 61,435 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively; liquidation preference of \$25.00 per share	7,050	1,426
EQUITY:		
Common stock, \$0.001 par value; 900,000,000 shares authorized; 57,875,848 and 84,048,081 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	58	84
Additional paid-in capital	1,077,151	1,566,073
Accumulated other comprehensive income (loss)	603	(509)
Distributions in excess of earnings	(432,220)	(599,971)
Total stockholders' equity	645,592	965,677
Noncontrolling interests	889	912
Total equity	646,481	966,589
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND EQUITY	\$ 1,637,955	\$ 2,022,884

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 data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)			
REVENUES:				
Rental and other property income	\$ 55,956	\$ 61,624	\$ 116,765	\$ 124,472
Expense reimbursements	2,526	3,316	5,556	6,244
Interest and other income	2,817	3,420	5,927	6,261
	<u>61,299</u>	<u>68,360</u>	<u>128,248</u>	<u>136,977</u>
EXPENSES:				
Rental and other property operating	27,249	32,299	50,209	63,577
Asset management and other fees to related parties	7,863	8,376	16,563	17,007
Interest	9,513	7,295	19,286	14,110
General and administrative	1,647	2,131	3,326	4,073
Transaction costs (Note 16)	11,615	118	11,628	267
Depreciation and amortization	14,761	18,480	31,992	36,538
Impairment of real estate (Note 3)	13,100	—	13,100	—
	<u>85,748</u>	<u>68,699</u>	<u>146,104</u>	<u>135,572</u>
Gain on sale of real estate (Note 3)	116,283	—	304,017	24,739
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES				
	91,834	(339)	286,161	26,144
Provision for income taxes	462	471	854	661
NET INCOME (LOSS) FROM CONTINUING OPERATIONS				
	<u>91,372</u>	<u>(810)</u>	<u>285,307</u>	<u>25,483</u>
DISCONTINUED OPERATIONS:				
Income from operations of assets held for sale (Note 7)	—	1,668	—	2,358
NET INCOME FROM DISCONTINUED OPERATIONS				
	<u>—</u>	<u>1,668</u>	<u>—</u>	<u>2,358</u>
NET INCOME				
	91,372	858	285,307	27,841
Net income attributable to noncontrolling interests	(9)	(9)	(14)	(12)
NET INCOME ATTRIBUTABLE TO THE COMPANY				
	<u>91,363</u>	<u>849</u>	<u>285,293</u>	<u>27,829</u>
Redeemable preferred stock dividends (Note 11)	(72)	—	(103)	—
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS				
	<u>\$ 91,291</u>	<u>\$ 849</u>	<u>\$ 285,190</u>	<u>\$ 27,829</u>
BASIC AND DILUTED NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS PER SHARE:				
Continuing operations	\$ 1.16	\$ (0.01)	\$ 3.50	\$ 0.26
Discontinued operations	\$ —	\$ 0.02	\$ —	\$ 0.02
Net income	<u>\$ 1.16</u>	<u>\$ 0.01</u>	<u>\$ 3.50</u>	<u>\$ 0.29</u>
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic	78,871	96,683	81,445	97,173
Diluted	<u>78,871</u>	<u>96,683</u>	<u>81,445</u>	<u>97,173</u>

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,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)			
NET INCOME	\$ 91,372	\$ 858	\$ 285,307	\$ 27,841
Other comprehensive income (loss): cash flow hedges	(440)	(2,445)	1,112	(10,370)
COMPREHENSIVE INCOME (LOSS)	90,932	(1,587)	286,419	17,471
Comprehensive income attributable to noncontrolling interests	(9)	(9)	(14)	(12)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	<u>\$ 90,923</u>	<u>\$ (1,596)</u>	<u>\$ 286,405</u>	<u>\$ 17,459</u>

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 data)

	Six Months Ended June 30, 2017						
	Common Stock Outstanding	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss) (Unaudited)	Distributions in Excess of Earnings	Noncontrolling Interests	Total Equity
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 12)	—	—	—	—	(4,872)	—	(4,872)
Common dividends (\$0.34375 per share)	—	—	—	—	(25,620)	—	(25,620)
Issuance of Warrants	—	—	27	—	—	—	27
Dividends to holders of Series A Preferred Stock (\$0.6875 per share)	—	—	—	—	(103)	—	(103)
Other comprehensive income (loss)	—	—	—	1,112	—	—	1,112
Net income	—	—	—	—	285,293	14	285,307
Balances, June 30, 2017	<u>57,875,848</u>	<u>\$ 58</u>	<u>\$ 1,077,151</u>	<u>\$ 603</u>	<u>\$ (432,220)</u>	<u>889</u>	<u>\$ 646,481</u>

	Six Months Ended June 30, 2016						
	Common Stock Outstanding	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss) (Unaudited)	Distributions in Excess of Earnings	Noncontrolling Interests	Total Equity
Balances, December 31, 2015	97,589,598	\$ 98	\$ 1,820,451	\$ (2,519)	\$ (521,620)	937	\$ 1,297,347
Distributions to noncontrolling interests	—	—	—	—	—	(36)	(36)
Stock-based compensation expense	10,176	—	65	—	—	—	65
Issuance of shares pursuant to employment agreements	76,423	—	—	—	—	—	—
Share repurchase	(10,000,000)	(10)	(186,781)	—	(23,541)	—	(210,332)
Common dividends (\$0.4375 per share)	—	—	—	—	(40,544)	—	(40,544)
Other comprehensive income (loss)	—	—	—	(10,370)	—	—	(10,370)
Net income	—	—	—	—	27,829	12	27,841
Balances, June 30, 2016	<u>87,676,197</u>	<u>\$ 88</u>	<u>\$ 1,633,735</u>	<u>\$ (12,889)</u>	<u>\$ (557,876)</u>	<u>913</u>	<u>\$ 1,063,971</u>

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,	
	2017	2016
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 285,307	\$ 27,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent and amortization of intangible assets, liabilities and lease inducements	(2,662)	(2,637)
Depreciation and amortization	31,992	36,538
Transfer of right to collect supplemental real estate tax reimbursements	(5,097)	—
Gain on sale of real estate	(304,017)	(24,739)
Impairment of real estate	13,100	—
Straight line rent, below-market ground lease and amortization of intangible assets	881	885
Amortization of deferred loan costs	808	1,967
Amortization of premiums and discounts on debt	(458)	(543)
Unrealized premium adjustment	722	835
Amortization and accretion on loans receivable, net	140	(419)
Bad debt expense (recovery)	187	(60)
Deferred income taxes	459	76
Stock-based compensation	78	65
Loans funded, held for sale to secondary market	(17,906)	(22,105)
Proceeds from sale of guaranteed loans	16,737	21,579
Principal collected on loans subject to secured borrowings	4,935	1,883
Other operating activity	(441)	1,020
Changes in operating assets and liabilities:		
Accounts receivable and interest receivable	(2,682)	(1,574)
Other assets	(1,653)	(1,107)
Accounts payable and accrued expenses	5,631	(1,779)
Deferred leasing costs	(2,557)	(6,532)
Other liabilities	(1,748)	2,063
Due to related parties	4	301
Net cash provided by operating activities	<u>21,760</u>	<u>33,558</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to investments in real estate	(9,915)	(18,121)
Proceeds from sale of real estate property, net	642,886	42,782
Loans funded	(5,969)	(27,871)
Principal collected on loans	5,496	26,164
Restricted cash	5,403	(76,956)
Other investing activity	67	1,042
Net cash provided by (used in) investing activities	<u>637,968</u>	<u>(52,960)</u>

(Continued)

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
(In thousands)

	Six Months Ended June 30,	
	2017	2016
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Payment of) proceeds from mortgages payable	(65,569)	309,170
Payment of unsecured revolving lines of credit, revolving credit facilities and term notes	—	(107,000)
Payment of principal on secured borrowings	(4,935)	(11,965)
Proceeds from secured borrowings	—	9,956
Payment of deferred preferred stock offering costs	(862)	(362)
Payment of deferred loan costs	(4)	(1,076)
Payment of common dividends	(25,620)	(40,544)
Payment of special cash dividends	(4,872)	—
Repurchase of Common Stock	(576,000)	(210,060)
Net proceeds from issuance of Warrants	27	—
Net proceeds from issuance of Series A Preferred Stock	5,645	—
Payment of preferred stock dividends	(40)	—
Noncontrolling interests' distributions	(37)	(36)
Net cash used in financing activities	(672,267)	(51,917)
Change in cash balances included in assets held for sale	(2,904)	(14,265)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,443)	(85,584)
CASH AND CASH EQUIVALENTS:		
Beginning of period	144,449	139,101
End of period	\$ 129,006	\$ 53,517
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 19,303	\$ 13,717
Federal income taxes paid	\$ 259	\$ 50
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to investments in real estate included in accounts payable and accrued expenses	\$ 6,883	\$ 9,392
Net increase (decrease) in fair value of derivatives applied to other comprehensive income (loss)	\$ 1,112	\$ (10,370)
Reduction of loans receivable and secured borrowings due to the SBA's repurchase of the guaranteed portion of a loan	\$ 534	\$ 2,663
Additions to deferred loan costs included in accounts payable and accrued expenses	\$ —	\$ 626
Expenses related to repurchase of common stock included in accounts payable and accrued expenses	\$ —	\$ 272
Proceeds receivable from closed mortgage loans included in other assets	\$ —	\$ 80,687
Additions to preferred stock offering costs included in accounts payable and accrued expenses	\$ 1,387	\$ 984
Accrual of dividends payable to preferred stockholders	\$ 72	\$ —
Preferred stock offering costs offset against redeemable preferred stock	\$ 21	\$ —

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, 2017 and December 31, 2016, and for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)

1. ORGANIZATION AND OPERATIONS

CIM Commercial Trust Corporation (“CIM Commercial” or the “Company”), a Maryland corporation and real estate investment trust (“REIT”), or together with its wholly-owned subsidiaries (“we,” “us” or “our”) primarily invests in, owns, and operates Class A and creative office investments 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 under the ticker symbol “CMCT.” We have authorized for issuance 900,000,000 shares of Common Stock and 100,000,000 shares of 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 3 to our consolidated financial statements for the year ended December 31, 2016, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 16, 2017.

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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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 16, 2017.

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

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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. 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 \$13,100,000 and \$0 during the three months ended June 30, 2017 and 2016, respectively, and \$13,100,000 and \$0 during the six months ended June 30, 2017 and 2016, respectively (Note 3).

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 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 from 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 13 for disclosures about our derivative financial instruments and hedging activities.

Loans Receivable—Our loans receivable included in other assets are carried at their unamortized principal balance less unamortized acquisition discounts and premiums, retained loan discounts and loan loss reserves. For loans originated under the Small Business Administration’s (“SBA”) 7(a) Guaranteed Loan Program (“SBA 7(a) Program”), we sell the portion of the loan that is guaranteed by the SBA. Upon sale of the SBA guaranteed portion of the loans, which are accounted for as sales, the unguaranteed portion of the loan retained by us is valued on a fair value basis and a discount (the “Retained Loan Discount”) is recorded as a reduction in basis of the retained portion of the loan.

At the Acquisition Date, the carrying value of our loans was adjusted to estimated fair market value and acquisition discounts of \$33,907,000 were recorded, which are being accreted to interest and other income using the effective interest method. We sold substantially all of our commercial mortgage loans with unamortized acquisition discounts of \$15,951,000 to an unrelated third party in December 2015 (Note 7). Acquisition discounts of \$1,563,000 remained as of June 30, 2017 which have not yet been accreted to income.

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A loan receivable is generally classified as non-accrual (a “Non-Accrual Loan”) if (i) it is past due as to payment of principal or interest for a period of 60 days or more, (ii) any portion of the loan is classified as doubtful or is charged-off or (iii) the repayment in full of the principal and/or interest is in doubt. Generally, loans are charged-off when management determines that we will be unable to collect any remaining amounts due under the loan agreement, either through liquidation of collateral or other means. Interest income, included in interest and other income or discontinued operations, on a Non-Accrual Loan is recognized on either the cash basis or the cost recovery basis.

On a quarterly basis, and more frequently if indicators exist, we evaluate the collectability of our loans receivable. Our evaluation of collectability involves judgment, estimates, and a review of the ability of the borrower to make principal and interest payments, the underlying collateral and the borrowers’ business models and future operations in accordance with Accounting Standards Codification (“ASC”) 450-20, *Contingencies—Loss Contingencies*, and ASC 310-10, *Receivables*. For the three and six months ended June 30, 2017, we recorded a net impairment of \$0 and \$12,000 on our loans receivable, respectively. For the three and six months ended June 30, 2016, we recorded a net impairment (recovery) of \$7,000 and \$(236,000) on our loans receivable, respectively. We establish a general loan loss reserve when available information indicates that it is probable a loss has occurred based on the carrying value of the portfolio and the amount of the loss can be reasonably estimated. Significant judgment is required in determining the general loan loss reserve, including estimates of the likelihood of default and the estimated fair value of the collateral. The general loan loss reserve includes those loans, which may have negative characteristics which have not yet become known to us. In addition to the reserves established on loans not considered impaired that have been evaluated under a specific evaluation, we establish the general loan loss reserve using a consistent methodology to determine a loss percentage to be applied to loan balances. These loss percentages are based on many factors, primarily cumulative and recent loss history and general economic conditions.

Deferred Rent Receivable and Charges—Deferred rent receivable and charges consist of deferred rent, deferred leasing costs, deferred offering costs (Note 11) and other deferred costs. Deferred rent receivable is \$56,406,000 and \$64,010,000 at June 30, 2017 and December 31, 2016, respectively. Deferred leasing costs, which represent lease commissions and other direct costs associated with the acquisition of tenants, are capitalized and amortized on a straight-line basis over the terms of the related leases. Deferred leasing costs of \$60,116,000 and \$76,063,000 are presented net of accumulated amortization of \$25,338,000 and \$25,914,000 at June 30, 2017 and December 31, 2016, respectively. Deferred offering costs represent direct costs incurred in connection with our offering of Units (as defined in Note 11), excluding costs specifically identifiable to a closing, such as commissions, dealer-manager fees, and other registration fees. For a specific issuance of Units, associated offering costs are reclassified as a reduction of proceeds raised on the issuance date. Offering costs incurred but not directly related to a specifically identifiable closing are deferred. Deferred offering costs are first allocated to each issuance on a pro-rata basis equal to the ratio of Units issued in an issuance to the maximum number of Units that are expected to be issued. Then, the deferred offering costs allocated to such issuance are further allocated to the Series A Preferred Stock (as defined in Note 11) and Warrants (as defined in Note 11) issued in such issuance based on the relative fair value of the instruments on the date of issuance. The deferred offering costs allocated to the Series A Preferred Stock and Warrants are reductions to temporary equity and permanent equity, respectively. Deferred offering costs of \$2,771,000 and \$2,060,000 related to our offering of Units are included in deferred rent receivable and charges at June 30, 2017 and December 31, 2016, respectively. Other deferred costs are \$1,414,000 and \$135,000 at June 30, 2017 and December 31, 2016, respectively.

Redeemable Preferred Stock—Beginning on the date of original issuance of any given shares of Series A Preferred Stock (Note 11), the holder of such shares will have the right to require the Company to redeem such shares at a redemption price of 100% of the Stated Value (as defined in Note 11), plus accrued and unpaid dividends, subject to the payment of a redemption fee until the fifth anniversary of such issuance. From and after the fifth anniversary of the date of the original issuance, the holder will have the right to require the Company to redeem such shares at a redemption price of 100% of the Stated Value, plus accrued and unpaid dividends, without a redemption fee, and the Company will have the right (but not the obligation) to redeem such shares at 100% of the Stated Value, plus accrued and unpaid dividends. The applicable redemption

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price payable upon redemption of any Series A Preferred Stock will be in cash or, on or after the first anniversary of the issuance of such shares of Series A Preferred Stock to be redeemed, in the Company's sole discretion, in cash or in equal value through the issuance of shares of Common Stock, based on the volume weighted average price of our Common Stock for the 20 trading days prior to the redemption. Since a holder of Series A Preferred Stock has the right to request redemption of such shares and redemptions prior to the first anniversary are to be paid in cash, we have recorded the activity related to our Series A Preferred Stock in temporary equity. We recorded the activity related to our Warrants (Note 11) in permanent equity. On the first anniversary of the date of original issuance of a particular share of Series A Preferred Stock, we intend to reclassify such share of Series A Preferred Stock from temporary equity to permanent equity because the feature giving rise to temporary equity classification, the requirement to satisfy redemption requests in cash, lapses on the first anniversary date. Proceeds and expenses from the sale of the Units are allocated to the Series A Preferred Stock and Warrants using their relative fair values on the date of issuance.

Noncontrolling Interests —Noncontrolling interests represent the interests in various properties owned by third parties.

Restricted Cash —Our mortgage loan and hotel management agreements provide for depositing cash into restricted accounts reserved for property taxes, insurance, capital expenditures, free rent, tenant improvement and leasing commission obligations. Restricted cash also includes cash required to be segregated in connection with certain of our loans receivable.

Assets Held for Sale and Discontinued Operations —In the ordinary course of business, we may periodically enter into agreements relating to dispositions of investments. Some of these agreements are non-binding because either they do not obligate either party to pursue any transactions until the execution of a definitive agreement or they provide the potential buyer with the ability to terminate without penalty or forfeiture of any material deposit, subject to certain specified contingencies, such as completion of due diligence at the discretion of such buyer. We do not classify assets that are subject to such non-binding agreements as held for sale.

We classify assets as held for sale, if material, when they meet the necessary criteria, which include: a) management commits to and actively embarks upon a plan to sell the assets, b) the assets to be sold are available for immediate sale in their present condition, c) the sale is expected to be completed within one year under terms usual and customary for such sales and d) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. We generally believe that we meet these criteria when the plan for sale has been approved by our board of directors (the "Board of Directors"), there are no known significant contingencies related to the sale and management believes it is probable that the sale will be completed within one year.

Assets held for sale are recorded at the lower of cost or estimated fair value less cost to sell. In addition, if we were to determine that the asset disposal associated with assets held for sale or disposed of represents a strategic shift, the revenues, expenses and net gain (loss) on dispositions would be recorded in discontinued operations for all periods presented through the date of the applicable disposition.

We have assessed the sale of three of our multifamily properties and our agreements to sell two multifamily properties (Note 3) in accordance with ASC 205-20, *Discontinued Operations*. In our assessment, we considered, among other factors, the materiality of the revenue, net operating income, and total assets of our multifamily segment during the three and six months ended June 30, 2017 and for the years ended December 31, 2016 and 2015. Based on our qualitative and quantitative assessment, we concluded the disposals do not represent a strategic shift that will have a major effect on our operations and financial results and they should not be classified as discontinued operations in our consolidated financial statements.

Consolidation Considerations for Our Investments in Real Estate —ASC 810-10, *Consolidation*, addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights that would require the entity to be consolidated. We analyze our investments in real estate in accordance with this accounting standard to determine whether they are variable interest entities, and if so, whether we are the primary beneficiary. Our judgment with respect to our level of influence or control over an entity and whether we are the primary beneficiary of a variable interest entity involves consideration of various factors, including the form of our ownership interest, our voting interest, the size of our investment (including loans), and our ability to participate in major policy-making decisions. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in our consolidated financial statements.

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Use of Estimates —The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications —Certain prior period amounts have been reclassified to conform with the current period presentation. These reclassifications had no effect on previously reported net income or cash flows.

Recently Issued Accounting Pronouncements— In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which is designed to improve the recognition and measurement of financial instruments through targeted changes to existing GAAP. The ASU requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available-for-sale debt securities in combination with other deferred tax assets. In addition, the ASU provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The ASU also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. For public business entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption by public entities to financial statements that have not yet been issued is permitted only for the provision related to instrument-specific credit risk. We are currently in the process of evaluating the impact of adoption of this new accounting guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires a lessee to recognize only capital leases on the balance sheet, the new ASU will require a lessee to recognize both types of leases on the balance sheet. The lessor accounting will remain largely unchanged from current GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. We are currently in the process of evaluating the impact of adoption of this new accounting guidance on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for share-based payment transactions, including accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, minimum statutory tax withholding requirements, and classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. In addition, the ASU eliminates certain guidance in ASC 718, which was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), *Share-Based Payment*. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is permitted and an entity that elects early adoption must adopt all of the amendments in the same period. The adoption of this guidance did not have a material impact on our consolidated financial statements.

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In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. The amendments in the ASU replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2019. Early adoption is permitted for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. We are currently in the process of evaluating the impact of adoption of this new accounting guidance on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption of this new accounting guidance on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption of this new accounting guidance on our consolidated financial statements.

In December 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which make certain technical corrections and improvements to ASU 2014-09. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations: Clarifying the Definition of a Business*, which narrows the definition of a business and provides a framework that gives entities a basis for making reasonable judgments about whether a transaction involves an asset or a business. For public entities, the ASU is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017. Early adoption is permitted under certain circumstances as outlined in the ASU. We are currently in the process of evaluating the impact of adoption of this new accounting guidance on our consolidated financial statements.

3. ACQUISITIONS AND DISPOSITIONS

The fair value of real estate acquired is recorded to the acquired tangible assets, consisting primarily of land, land improvements, building and improvements, tenant improvements, and furniture, fixtures, and equipment, and identified intangible assets and liabilities, consisting of the value of acquired above-market and below-market leases, in-place leases and ground leases, if any, based in each case on their respective fair values. Loan premiums, in the case of above-market rate loans, or loan discounts, in the case of below-market rate loans, are recorded based on the fair value of any loans assumed in connection with acquiring the real estate.

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There were no acquisitions during the six months ended June 30, 2017.

On March 28, 2017, we sold a 100% fee-simple interest in 211 Main Street located in San Francisco, California to an unrelated third party. Transaction costs expensed in connection with this sale totaled \$2,943,000 and included a prepayment penalty of \$1,508,000 incurred in connection with the prepayment of the property's mortgage (Note 8).

On May 30, 2017, we sold a 100% fee-simple interest in 3636 McKinney Avenue and 3839 McKinney Avenue, both located in Dallas, Texas, to an unrelated third party. Transaction costs expensed in connection with these sales totaled \$2,258,000 and included prepayment penalties of \$1,901,000 incurred in connection with the prepayment of the properties' mortgages (Note 8).

On June 8, 2017, we sold a 100% fee-simple interest in 200 S College Street located in Charlotte, North Carolina to an unrelated third party. Transaction costs expensed in connection with this sale totaled \$833,000.

On June 20, 2017, we sold a 100% fee-simple interest in 980 9th Street and 1010 8th Street, both located in Sacramento, California, to an unrelated third party. Transaction costs expensed in connection with these sales totaled \$952,000.

On June 23, 2017, we sold a 100% fee-simple interest in 4649 Cole Avenue located in Dallas, Texas to an unrelated third party. Transaction costs expensed in connection with this sale totaled \$3,311,000 and included a prepayment penalty of \$2,812,000 incurred in connection with the prepayment of the property's mortgage (Note 8).

The results of operations of the aforementioned properties have been included in the consolidated statements of operations through their respective disposition dates.

<u>Property</u>	<u>Asset Type</u>	<u>Date of Sale</u>	<u>Square Feet / Units</u>	<u>Sales Price</u>	<u>Gain on Sale</u>
				(in thousands)	
211 Main Street, San Francisco, CA	Office	March 28, 2017	417,266	\$ 292,882	\$ 187,734
3636 McKinney Avenue, Dallas, TX	Multifamily	May 30, 2017	103	\$ 20,000	\$ 5,488
3839 McKinney Avenue, Dallas, TX	Multifamily	May 30, 2017	75	\$ 14,100	\$ 4,224
200 S College Street, Charlotte, NC	Office	June 8, 2017	567,865	\$ 148,500	\$ 45,906
980 9th Street and 1010 8th Street, Sacramento, CA	Office & Parking Garage	June 20, 2017	485,926	\$ 120,500	\$ 34,829
4649 Cole Avenue, Dallas, TX	Multifamily	June 23, 2017	334	\$ 64,000	\$ 25,836

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The following is the detail of the carrying amount of assets and liabilities at the time of the sales of the properties in 2017:

	<u>(in thousands)</u>
<i>Assets</i>	
Investments in real estate, net	\$ 319,078
Deferred rent receivable and charges, net	22,089
Other intangible assets, net	129
Other assets	38
Total assets	\$ 341,334
<i>Liabilities</i>	
Debt, net (1)	\$ 64,777
Intangible liabilities, net	1,800
Total liabilities	\$ 66,577

(1) Net of \$665,000 of premium on assumed mortgage.

There were no acquisitions during the six months ended June 30, 2016.

On February 2, 2016, we sold a 100% fee-simple interest in the Courtyard Oakland located in Oakland, California to an unrelated third party. The results of operations of this hotel have been included in the consolidated statement of operations through the date of disposition.

<u>Property</u>	<u>Asset Type</u>	<u>Date of Sale</u>	<u>Rooms</u>	<u>Sales Price</u>	<u>Gain on Sale</u>
				<u>(in thousands)</u>	
Courtyard Oakland, Oakland, CA	Hotel	February 2, 2016	162	\$ 43,800	\$ 24,739

We have entered into three purchase and sale agreements, each as a separate transaction with unrelated third parties, for the sale of an office property located at 7083 Hollywood Boulevard in Los Angeles, California; a multifamily property located at 4200 Scotland Street in Houston, Texas; and a multifamily property located at 47 E 34th Street in New York, New York. The aggregate contract sales price for these properties is \$186,325,000. In connection with these dispositions, \$50,568,000 of the outstanding mortgages payable at June 30, 2017 will be repaid or assumed by the buyer. We expect the closing of these sales transactions to occur during the second half of 2017. These purchase and sale agreements were entered into and became subject to non-refundable deposits on or prior to June 30, 2017. Therefore, these properties have been classified as held for sale as of June 30, 2017.

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The following is the detail of the carrying amounts of assets and liabilities of the properties that are classified as held for sale on our consolidated balance sheet as of June 30, 2017:

	<u>(in thousands)</u>
<i>Assets</i>	
Investments in real estate, net (1)	\$ 118,221
Cash and cash equivalents	2,904
Restricted cash	51
Accounts receivable, net	251
Deferred rent receivable and charges, net	1,865
Other intangible assets, net (2)	1,124
Other assets	722
Total assets held for sale, net	\$ 125,138
<i>Liabilities</i>	
Debt, net (3)	\$ 50,230
Accounts payable and accrued expenses	1,402
Due to related parties	195
Other liabilities	1,059
Total liabilities associated with assets held for sale, net	\$ 52,886

(1) Investments in real estate of \$136,153,000 are presented net of accumulated depreciation of \$17,932,000.

(2) Other intangible assets, net, represents a tax abatement asset of \$4,273,000 associated with 47 E 34th Street, which is presented net of accumulated amortization of \$3,149,000.

(3) Debt includes the outstanding principal balances of 7083 Hollywood Boulevard and 4200 Scotland Street, which are \$21,700,000 and \$28,868,000, respectively. Debt is presented net of deferred loan costs of \$524,000 and the accumulated amortization of \$186,000.

In August 2017, we negotiated an agreement with an unrelated third party for the sale of an office property. We expect the sale to close during the second half of 2017. The purchase and sale agreement has not yet been finalized and is not subject to a non-refundable deposit. Therefore, the property has not been classified as held for sale as of June 30, 2017 as not all the held for sale criteria had been met at such time. We determined the book value of this property exceeded its estimated fair value less costs to sell, and as such, an impairment charge of \$13,100,000 was recognized as of June 30, 2017. Our determination of fair value was based on negotiations with the third party buyer.

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4. INVESTMENTS IN REAL ESTATE

Investments in real estate consist of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Land	\$ 244,072	\$ 343,564
Land improvements	17,746	26,177
Buildings and improvements	1,064,191	1,475,415
Furniture, fixtures, and equipment	3,525	4,955
Tenant improvements	130,481	159,677
Work in progress	9,528	11,706
Investments in real estate	1,469,543	2,021,494
Accumulated depreciation	(328,083)	(414,552)
Net investments in real estate	\$ 1,141,460	\$ 1,606,942

We recorded depreciation expense of \$12,670,000 and \$16,030,000 for the three months ended June 30, 2017 and 2016, respectively, and \$27,354,000 and \$31,703,000 for the six months ended June 30, 2017 and 2016, respectively.

5. OTHER INTANGIBLE ASSETS

A schedule of our intangible assets and liabilities and related accumulated amortization and accretion as of June 30, 2017 and December 31, 2016 is as follows:

	Assets			Liabilities
	Acquired In-Place Leases	Acquired Below- Market Ground Lease	Trade Name and License	Acquired Below- Market Leases
June 30, 2017		(in thousands)		
Gross balance	\$ 10,181	\$ 11,685	\$ 2,957	\$ (5,722)
Accumulated amortization	(7,581)	(1,632)	—	4,584
	\$ 2,600	\$ 10,053	\$ 2,957	\$ (1,138)
Average useful life (in years)	10	84	Indefinite	7

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and
for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)**

	Assets					Liabilities
	Acquired Above-Market Leases	Acquired In-Place Leases	Tax Abatement (1)	Acquired Below-Market Ground Lease	Trade Name and License	Acquired Below-Market Leases
December 31, 2016						
			(in thousands)			
Gross balance	\$ 215	\$ 11,551	\$ 4,273	\$ 11,685	\$ 2,957	\$ (18,893)
Accumulated amortization	(180)	(8,443)	(2,873)	(1,562)	—	15,317
	<u>\$ 35</u>	<u>\$ 3,108</u>	<u>\$ 1,400</u>	<u>\$ 10,123</u>	<u>\$ 2,957</u>	<u>\$ (3,576)</u>
Average useful life (in years)	<u>8</u>	<u>10</u>	<u>8</u>	<u>84</u>	<u>Indefinite</u>	<u>8</u>

(1) Tax abatement is associated with 47 E 34th Street, which is classified as held for sale on our consolidated balance sheet at June 30, 2017 (Note 3).

The amortization of the acquired above-market leases which decreased rental and other property income was \$0 and \$26,000 for the three months ended June 30, 2017 and 2016, respectively, and \$3,000 and \$64,000 for the six months ended June 30, 2017 and 2016, respectively. The amortization of the acquired in-place leases included in depreciation and amortization expense was \$195,000 and \$368,000 for the three months ended June 30, 2017 and 2016, respectively, and \$411,000 and \$748,000 for the six months ended June 30, 2017 and 2016, respectively. Included in depreciation and amortization expense was franchise affiliation fee amortization of \$0 and \$0 for the three months ended June 30, 2017 and 2016, respectively, and \$0 and \$33,000 for the six months ended June 30, 2017 and 2016, respectively. Tax abatement amortization of \$138,000 for each of the three months ended June 30, 2017 and 2016, and \$276,000 for each of the six months ended June 30, 2017 and 2016 was included in rental and other property operating expenses. The amortization of the acquired below-market ground lease of \$35,000 for each of the three months ended June 30, 2017 and 2016, and \$70,000 for each of the six months ended June 30, 2017 and 2016 was included in rental and other property operating expenses. The amortization of the acquired below-market leases included in rental and other property income was \$219,000 and \$631,000 for the three months ended June 30, 2017 and 2016, respectively, and \$638,000 and \$1,262,000 for the six months ended June 30, 2017 and 2016, respectively.

A schedule of future amortization and accretion of acquisition related intangible assets and liabilities as of June 30, 2017, is as follows:

Years Ending December 31,	Assets		Liabilities
	Acquired In-Place Leases	Acquired Below-Market Ground Lease	Acquired Below-Market Leases
		(in thousands)	
2017 (Six months ending December 31, 2017)	\$ 373	\$ 70	\$ (428)
2018	723	140	(510)
2019	464	140	(200)
2020	207	140	—
2021	207	140	—
Thereafter	626	9,423	—
	<u>\$ 2,600</u>	<u>\$ 10,053</u>	<u>\$ (1,138)</u>

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and
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6. OTHER ASSETS

Other assets consist of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
SBA 7(a) loans, subject to credit risk	\$ 46,276	\$ 43,623
SBA 7(a) loans, subject to secured borrowings	24,162	29,524
Other assets	18,717	19,123
	\$ 89,155	\$ 92,270

SBA 7(a) Loans, Subject to Credit Risk—Represents the non-government guaranteed retained portion of loans originated under the SBA 7(a) Program and the government guaranteed portion of loans that have not yet been fully funded or sold.

SBA 7(a) Loans, Subject to Secured Borrowings—Represents the government guaranteed portion of loans which were sold with the proceeds received from the sale reflected as secured borrowings—government guaranteed loans. There is no credit risk associated with these loans since the SBA has guaranteed payment of the principal.

At June 30, 2017 and December 31, 2016, 99.5% and 99.7%, respectively, of our loans subject to credit risk were current with the remainder (\$236,000 and \$249,000, respectively) greater than 29 days delinquent. We classify loans with negative characteristics in substandard categories ranging from special mention to doubtful. At June 30, 2017 and December 31, 2016, \$593,000 and \$804,000, respectively, of loans subject to credit risk were classified in substandard categories.

At June 30, 2017 and December 31, 2016, our loans subject to credit risk were 95.9% and 94.6%, respectively, concentrated in the hospitality industry.

7. DISCONTINUED OPERATIONS

We had reflected the lending segment, which was acquired on the Acquisition Date as disclosed in Note 1, as held for sale commencing in 2014, based on a plan approved by the Board of Directors to sell the lending segment that, when completed, would have resulted in the deconsolidation of the lending segment, which at that time was focused on small business lending in the hospitality industry. In July 2015, to maximize value, we modified our strategy from a strategy of selling the lending segment as a whole to a strategy of soliciting buyers for components of the business, including our commercial mortgage loans and the SBA 7(a) lending platform. This change in the sale methodology resulted in the need to extend the period to complete the sale of the lending segment beyond one year. In connection with our plan, we expensed transaction costs of \$11,000 and \$20,000 as incurred during the three and six months ended June 30, 2016, respectively.

On December 17, 2015, pursuant to the modified plan, we sold substantially all of our commercial mortgage loans with a carrying value of \$77,121,000 to an unrelated third party and recognized a gain of \$5,151,000. In September 2016, we discontinued our efforts to sell the SBA 7(a) lending platform, and the activities related to the SBA 7(a) lending platform have been reclassified to continuing operations for all periods presented.

On December 29, 2016, we sold our commercial real estate lending subsidiary, which was classified as held for sale and had a carrying value of \$27,587,000, which was equal to management's estimate of fair value, to a fund managed by an affiliate of CIM Group. We did not recognize any gain or loss in connection with the transaction. Management's estimate of fair value was determined with assistance from an independent third party valuation firm.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and
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The following is the detail of income from operations of assets held for sale classified as discontinued operations on the consolidated statements of operations for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
	(in thousands)	
Revenue —Interest and other income	\$ 2,416	\$ 3,531
Expenses:		
Interest expense	588	876
Fees to related party	148	280
General and administrative	12	17
Total expenses	748	1,173
Income from operations of assets held for sale	\$ 1,668	\$ 2,358

During the three months ended June 30, 2017, we sold three of our five multifamily properties to unrelated third parties and we entered into purchase and sale agreements subject to non-refundable deposits, each as a separate transaction with unrelated third parties, for the remaining two multifamily properties, which have been classified as held for sale on our consolidated balance sheet as of June 30, 2017. We expect the closing of these sales to occur during the second half of 2017.

We have assessed the sale of three of our multifamily properties and our agreements to sell two multifamily properties (Note 3) in accordance with ASC 205-20, *Discontinued Operations*. In our assessment, we considered, among other factors, the materiality of the revenue, net operating income, and total assets of our multifamily segment during the three and six months ended June 30, 2017 and for the years ended December 31, 2016 and 2015. Based on our qualitative and quantitative assessment, we concluded the disposals do not represent a strategic shift that will have a major effect on our operations and financial results and they should not be classified as discontinued operations in our consolidated financial statements.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and
for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)**

8. DEBT

Information on our debt is as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	<u>(in thousands)</u>	
Mortgage loans with a fixed interest rate of 4.14% per annum, with monthly payments of interest only, and balances totaling \$370,300,000 due on July 1, 2026. The loans are nonrecourse. One loan with an outstanding principal balance of \$21,700,000 was reclassified to liabilities associated with assets held for sale at June 30, 2017 (Note 3).	\$ 370,300	\$ 392,000
Mortgage loan with a fixed interest rate of 4.50% per annum, with monthly payments of interest only for 10 years, and payments of interest and principal starting in February 2022. The loan has a \$42,008,000 balance due on January 5, 2027. The loan is nonrecourse.	46,000	46,000
Mortgage loans with a fixed interest rate of 5.39% per annum, with monthly payments of principal and interest, and balances totaling \$35,695,000 due on March 1, 2021. The loans were nonrecourse. The loans were repaid in May and June 2017 in connection with the sale of the properties that were collateral for the loans.	—	39,134
Mortgage loan with a fixed interest rate of 5.18% per annum, with monthly payments of principal and interest, and a balance of \$26,232,000 due on June 5, 2021. The loan is nonrecourse. The loan was reclassified to liabilities associated with assets held for sale at June 30, 2017 (Note 3).	—	29,167
Mortgage loan with a fixed interest rate of 6.65% per annum, with monthly payments of principal and interest. The loan had a 25-year amortization schedule with a \$21,136,000 balance due on July 15, 2018. The loan was nonrecourse. The loan was repaid in March 2017 in connection with the sale of the property that was collateral for the loan.	—	26,136
	<u>416,300</u>	<u>532,437</u>
Deferred loan costs related to mortgage loans	(1,628)	(2,366)
Premiums and discounts on assumed mortgages, net	—	722
Total Mortgages Payable	<u>414,672</u>	<u>530,793</u>
Secured borrowing principal on SBA 7(a) loans sold for a premium and excess spread—variable rate, reset quarterly, based on prime rate with weighted average coupon rate of 4.55% and 4.13% at June 30, 2017 and December 31, 2016, respectively.	18,504	23,122
Secured borrowing principal on SBA 7(a) loans sold for excess spread—variable rate, reset quarterly, based on prime rate with weighted average coupon rate of 2.33% and 1.83% at June 30, 2017 and December 31, 2016, respectively.	4,460	4,777
	<u>22,964</u>	<u>27,899</u>
Unamortized premiums	1,638	2,077
Total Secured Borrowings—Government Guaranteed Loans	<u>24,602</u>	<u>29,976</u>
Unsecured term loan facility	385,000	385,000
Junior subordinated notes with a variable interest rate which resets quarterly based on the 90-day LIBOR plus 3.25%, with quarterly interest only payments. Balance due at maturity on March 30, 2035.	27,070	27,070
Unsecured credit facility	—	—
	<u>412,070</u>	<u>412,070</u>
Deferred loan costs related to unsecured term loan and credit facilities	(2,534)	(2,938)
Discount on junior subordinated notes	(1,977)	(2,015)
Total Other	<u>407,559</u>	<u>407,117</u>
Total Debt	<u>\$ 846,833</u>	<u>\$ 967,886</u>

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)

The mortgages payable are secured by deeds of trust on certain of the properties and assignments of rents.

The junior subordinated notes may be redeemed at par at our option.

Secured borrowings—government guaranteed loans represent sold loans which are treated as secured borrowings because the loan sales did not meet the derecognition criteria provided for in ASC 860-30, *Secured Borrowing and Collateral*. These loans included cash premiums that are amortized as a reduction to interest expense over the life of the loan using the effective interest method and are fully amortized when the underlying loan is repaid in full.

Deferred loan costs, which represent legal and third-party fees incurred in connection with our borrowing activities, are capitalized and amortized to interest expense on a straight-line basis over the life of the related loan, approximating the effective interest method. Deferred loan costs of \$5,835,000 and \$7,122,000 are presented net of accumulated amortization of \$1,673,000 and \$1,818,000 at June 30, 2017 and December 31, 2016, respectively, and are a reduction to total debt.

In September 2014, CIM Commercial entered into an \$850,000,000 unsecured credit facility with a bank syndicate consisting of a \$450,000,000 revolver, a \$325,000,000 term loan and a \$75,000,000 delayed-draw term loan. CIM Commercial is subject to certain financial maintenance covenants and a minimum property ownership condition. Outstanding advances under the revolver bear interest at (i) the base rate plus 0.20% to 1.00% or (ii) LIBOR plus 1.20% to 2.00%, depending on the maximum consolidated leverage ratio. Outstanding advances under the term loans bore interest at (i) the base rate plus 0.15% to 0.95% or (ii) LIBOR plus 1.15% to 1.95%, depending on the maximum consolidated leverage ratio. The revolver is also subject to an unused commitment fee of 0.15% or 0.25% depending on the amount of aggregate unused commitments. The delayed-draw term loan was also subject to an unused line fee of 0.25%. Proceeds from the unsecured credit facility were used to repay mortgage loans and outstanding balances under our prior unsecured credit facilities, for acquisitions, short-term funding of a Common Stock tender offer in June 2016, short-term funding of a private repurchase of Common Stock in June 2017, and general corporate purposes. In June 2016, we entered into six mortgage loan agreements with an aggregate principal amount of \$392,000,000. A portion of the net proceeds from the loans was used to repay outstanding balances under our unsecured credit facility and the remaining portion was used to repurchase shares of our Common Stock in a private repurchase in September 2016. The June 2017 borrowing used to fund the private share repurchase was repaid using proceeds from subsequent asset sales. The credit facility was set to mature in September 2016 and prior to maturity, we exercised the first of two one year extension options through September 2017 and we permanently reduced the revolving credit commitment under the credit facility to \$200,000,000. In August 2017, we exercised the second of two one year extension options through September 2018 and, in connection with such exercise, we will pay an extension fee of \$300,000. At June 30, 2017 and December 31, 2016, \$0 was outstanding under the credit facility. The unused capacity on the unsecured credit facility, based on covenant restrictions at June 30, 2017 and December 31, 2016, was approximately \$89,000,000 and \$200,000,000, respectively.

In May 2015, CIM Commercial entered into an unsecured term loan facility with a bank syndicate pursuant to which CIM Commercial can borrow up to a maximum of \$385,000,000. The term loan facility ranks pari passu with CIM Commercial's unsecured credit facility described above; covenants under the term loan facility are substantially the same as those in the unsecured credit facility. Outstanding advances under the term loan facility bear interest at (i) the base rate plus 0.60% to 1.25% or (ii) LIBOR plus 1.60% to 2.25%, depending on the maximum consolidated leverage ratio. The unused portion of the term loan facility was also subject to an unused fee of 0.20%. With some exceptions, any prepayment of the term loan facility prior to May 9, 2017 was subject to a prepayment fee up to 2.00% of the outstanding principal amount. The term loan facility matures in May 2022. On November 2, 2015, \$385,000,000 was drawn under the term loan facility. At June 30, 2017 and December 31, 2016, \$385,000,000 was outstanding under the term loan facility. Proceeds from the term loan facility were used to repay balances outstanding under our unsecured credit facility. At June 30, 2017 and December 31, 2016, the variable interest rate on this unsecured term loan facility was 2.65% and 2.22%, respectively. The interest rate of the loan has been effectively converted to a fixed rate of 3.16% until May 8, 2020 through interest rate swaps (Note 13). On August 3, 2017, we repaid \$65,000,000 of outstanding borrowings on our unsecured term loan facility. In connection with such pay down, we terminated three interest rate swaps with an aggregate notional value of \$65,000,000 (Note 13). Costs incurred to terminate such swaps totaled \$38,000, which will be reflected in earnings.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

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At June 30, 2017 and December 31, 2016, we were in compliance with all of our respective financial covenants under the unsecured credit and term loan facilities.

On March 28, 2017, in connection with the sale of an office property in San Francisco, California, we paid off a mortgage with an outstanding balance of \$25,331,000 using proceeds from the sale. Additionally, we paid a prepayment penalty of \$1,508,000 in connection with the prepayment of this mortgage (Note 3).

On May 30, 2017, in connection with the sale of two multifamily properties, both located in Dallas, Texas, we paid off two mortgages with an aggregate outstanding balance of \$15,448,000 using proceeds from the sales. Additionally, we paid aggregate prepayment penalties of \$1,901,000 in connection with the prepayment of these mortgages (Note 3).

On June 23, 2017, in connection with the sale of a multifamily property in Dallas, Texas, we paid off a mortgage with an outstanding balance of \$23,333,000 using proceeds from the sale. Additionally, we paid a prepayment penalty of \$2,812,000 in connection with the prepayment of this mortgage (Note 3).

As of June 30, 2017, two mortgage loans are included in liabilities associated with assets held for sale on our consolidated balance sheet. The first mortgage loan is nonrecourse, is secured by an office property located at 7083 Hollywood Boulevard in Los Angeles, California, and has a balance of \$21,700,000 at June 30, 2017 with a fixed interest rate of 4.14% per annum, requiring monthly payments of interest only, with a maturity date of July 1, 2026. The second mortgage loan is nonrecourse, is secured by a multifamily property located at 4200 Scotland Street in Houston, Texas, and has a balance of \$28,868,000 at June 30, 2017 with a fixed interest rate of 5.18% per annum, requiring monthly payments of principal and interest, with a maturity date of June 5, 2021 (Note 3).

At June 30, 2017 and December 31, 2016, accrued interest and unused commitment fees payable of \$2,765,000 and \$3,133,000, respectively, are included in accounts payable and accrued expenses.

Future principal payments on our debt (face value) at June 30, 2017 are as follows:

Years Ending December 31,	Secured Borrowings Principal (1)	Mortgages Payable (2)	Other (3)	Total
	(in thousands)			
2017 (Six months ending December 31, 2017)	\$ 605	\$ —	\$ —	\$ 605
2018	835	—	—	835
2019	867	—	—	867
2020	902	—	—	902
2021	940	—	—	940
Thereafter	18,815	416,300	412,070	847,185
	\$ 22,964	\$ 416,300	\$ 412,070	\$ 851,334

(1) Principal payments are generally dependent upon cash flows received from the underlying loans. Our estimate of their repayment is based on scheduled principal payments on the underlying loans. Our estimate will differ from actual amounts to the extent we experience prepayments and/or loan liquidations or charge-offs. No payment is due unless payments are received from the borrowers on the underlying loans.

(2) Excludes the future principal payments for 7083 Hollywood Boulevard and 4200 Scotland Street, which are classified as liabilities associated with assets held for sale on our consolidated balance sheet at June 30, 2017 (Note 3).

(3) Represents the junior subordinated notes and unsecured term loan facility.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)

9. STOCK-BASED COMPENSATION PLANS

In April 2015, we granted awards of 2,000 restricted shares of Common Stock to each of the independent members of the Board of Directors (6,000 in aggregate) under the 2015 Equity Incentive Plan, which fully vested in April 2016 based on one year of continuous service. In May 2016, we granted awards of 3,392 restricted shares of Common Stock to each of the independent members of the Board of Directors (10,176 in aggregate) under the 2015 Equity Incentive Plan, which fully vested in May 2017 based on one year of continuous service. In addition, in June 2017, we granted awards of 3,195 restricted shares of Common Stock to each of the independent members of the Board of Directors (9,585 in aggregate) under the 2015 Equity Incentive Plan, which will vest over one year of continuous service. Compensation expense related to these restricted shares of Common Stock is recognized over the vesting period. We recorded compensation expense of \$29,000 and \$32,000 for the three months ended June 30, 2017 and 2016, respectively, and \$77,000 and \$59,000 for the six months ended June 30, 2017 and 2016, respectively, related to these restricted shares of Common Stock.

We issued to two of our executive officers an aggregate of 2,000 restricted shares of Common Stock on May 6, 2014, which were fully vested in May 2016, and an aggregate of 2,000 restricted shares of Common Stock on March 6, 2015, which were fully vested in March 2017. The restricted shares of Common Stock vested based on two years of continuous service with one-third of the shares of Common Stock vesting immediately upon issuance and one-third vesting at the end of each of the next two years from the date of issuance. Compensation expense related to these restricted shares of Common Stock was recognized over the vesting period. We recognized compensation expense of \$0 and \$1,000 for the three months ended June 30, 2017 and 2016, respectively, and \$1,000 and \$6,000 for the six months ended June 30, 2017 and 2016, respectively, related to these restricted shares of Common Stock.

As of June 30, 2017, there was \$137,000 of total unrecognized compensation expense related to shares of Common Stock which will be recognized over the next year.

10. EARNINGS PER SHARE (“EPS”)

The computations of basic EPS are based on our weighted average shares outstanding. The basic weighted average shares of Common Stock outstanding were 78,871,000 and 96,683,000 for the three months ended June 30, 2017 and 2016, respectively, and 81,445,000 and 97,173,000 for the six months ended June 30, 2017 and 2016, respectively. We had no dilutive securities outstanding for each of the three and six months ended June 30, 2017 and 2016. Outstanding shares of Series A Preferred Stock and Warrants were not included in the computation of diluted EPS for the three and six months ended June 30, 2017 because their impact was deemed to be anti-dilutive. No shares of Series A Preferred Stock or Warrants were outstanding during the three and six months ended June 30, 2016.

EPS for the year-to-date period may differ from the sum of quarterly EPS amounts due to the required method for computing EPS in the respective periods. In addition, EPS is calculated independently for each component and may not be additive due to rounding.

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The following table reconciles the numerator and denominator used in computing our basic and diluted per-share computations for net income available to common stockholders for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Numerator:				
Net income (loss) from continuing operations	\$ 91,372	\$ (810)	\$ 285,307	\$ 25,483
Net income attributable to noncontrolling interests	(9)	(9)	(14)	(12)
Redeemable preferred stock dividends	(72)	—	(103)	—
Numerator for basic and diluted net income (loss) from continuing operations available to common stockholders	91,291	(819)	285,190	25,471
Net income from discontinued operations	—	1,668	—	2,358
Numerator for basic and diluted net income available to common stockholders	<u>\$ 91,291</u>	<u>\$ 849</u>	<u>\$ 285,190</u>	<u>\$ 27,829</u>
Denominator:				
Basic weighted average shares outstanding	78,871	96,683	81,445	97,173
Effect of dilutive securities—contingently issuable shares and stock options	—	—	—	—
Diluted weighted average shares and common stock equivalents outstanding	<u>78,871</u>	<u>96,683</u>	<u>81,445</u>	<u>97,173</u>
Basic and diluted net income (loss) available to common stockholders per share:				
Continuing operations	\$ 1.16	\$ (0.01)	\$ 3.50	\$ 0.26
Discontinued operations	\$ —	\$ 0.02	\$ —	\$ 0.02
Net income	<u>\$ 1.16</u>	<u>\$ 0.01</u>	<u>\$ 3.50</u>	<u>\$ 0.29</u>

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11. REDEEMABLE PREFERRED STOCK

We have an effective registration statement with the Securities and Exchange Commission (“SEC”) with respect to the offer and sale of up to \$900,000,000 of units (collectively, the “Units”), with each unit consisting of (i) one share of Series A Preferred Stock, par value \$0.001 per share, of the Company (collectively, the “Series A Preferred Stock”) with an initial stated value of \$25.00 per share (“Stated Value”) and (ii) one warrant (collectively, the “Warrants”) to purchase 0.25 of a share of Common Stock (Note 12). The registration statement allows us to sell up to a maximum of 36,000,000 Units. Our Series A Preferred Stock ranks senior to our Common Stock with respect to payment of dividends and distributions of amounts upon liquidation, dissolution or winding up. Proceeds and expenses from the sale of the Units are allocated to the Series A Preferred Stock and Warrants using their relative fair values on the date of issuance.

Our Series A Preferred Stock is redeemable at the option of the holder (the “Holder”) or CIM Commercial. The redemption schedule of the Series A Preferred Stock allows redemptions at the option of the Holder from the date of original issuance of any given shares of Series A Preferred Stock through the second year at Stated Value, plus accrued and unpaid dividends, subject to the payment of a 13.0% redemption fee. After year two, the redemption fee decreases to 10.0% and after year five there is no redemption fee. Also, CIM Commercial has the right to redeem the Series A Preferred Stock after year five at Stated Value, plus accrued and unpaid dividends. At the Company’s discretion, redemptions will be paid in cash or, on or after the first anniversary of the issuance of such shares of Series A Preferred Stock, an equal value of Common Stock based on the volume weighted average price of our Common Stock for the 20 trading days prior to the redemption. As of June 30, 2017, no shares of Series A Preferred Stock have been redeemed.

As of June 30, 2017, we had issued 308,775 Units and received gross proceeds of \$7,720,000 (\$7,668,000 of which were allocated to the Series A Preferred Stock in temporary equity and the remaining \$52,000 were allocated to the Warrants in permanent equity). In connection with such issuance, costs specifically identifiable to the offering of Units, such as commissions, dealer manager fees and other registration fees, totaled \$614,000 (\$594,000 of which were allocated to the Series A Preferred Stock in temporary equity and the remaining \$20,000 were allocated to the Warrants in permanent equity). In addition, as of June 30, 2017, non issuance specific costs related to this offering totaled \$2,795,000. As of June 30, 2017, we have reclassified \$24,000 and a de minimis amount from deferred rent receivable and charges to temporary equity and stockholders’ equity, respectively, as a reduction to the gross proceeds received. Such reclassification was based on the number of Units issued during the period relative to the maximum number of Units expected to be issued under the offering.

Holders of Series A Preferred Stock are entitled to receive, if, as and when authorized by our Board of Directors, and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Preferred Stock at an annual rate of 5.5% of the Stated Value (i.e., the equivalent of \$0.34375 per share per quarter). Dividends on each share of Series A Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance. Cash dividends declared on our Series A Preferred Stock for the three and six months ended June 30, 2017 consist of the following:

<u>Declaration Date</u>	<u>Payment Date</u>	<u>Number of Shares</u>	<u>Aggregate Dividends Declared (in thousands)</u>
June 12, 2017	July 17, 2017	308,775	\$ 72
March 8, 2017	April 17, 2017	144,698	\$ 31

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

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12. STOCKHOLDERS' EQUITY

Dividends

Dividends per share of Common Stock declared during the six months ended June 30, 2017 and 2016 consist of the following:

Declaration Date	Payment Date	Type	Dividend Per Common Share
June 12, 2017	June 27, 2017	Special Cash	\$ 1.98000
June 12, 2017	June 27, 2017	Regular Quarterly	\$ 0.12500
April 5, 2017	April 24, 2017	Special Cash	\$ 0.28000
March 8, 2017	March 27, 2017	Regular Quarterly	\$ 0.21875
June 10, 2016	June 28, 2016	Regular Quarterly	\$ 0.21875
March 8, 2016	March 29, 2016	Regular Quarterly	\$ 0.21875

On June 12, 2017, we declared a special cash dividend of \$1.98 per share of Common Stock, or \$4,271,000 in the aggregate, that was paid on June 27, 2017 to stockholders of record on June 20, 2017. This special cash dividend allowed common stockholders that did not participate in the June 12, 2017 private repurchase to receive the economic benefit of such repurchase. Urban Partners II, LLC ("Urban II"), a fund managed by an affiliate of CIM Group, the Manager and Advisor of CIM Commercial (each as defined in Note 15), and an affiliate of CIM REIT and CIM Urban, waived its right to receive this special cash dividend.

In addition, on April 5, 2017, we declared a special cash dividend of \$0.28 per share of Common Stock, or \$601,000 in the aggregate, that was paid on April 24, 2017 to stockholders of record on April 17, 2017. This special cash dividend allowed common stockholders that did not participate in the September 14, 2016 private repurchase to receive the economic benefit of such repurchase. Urban II waived its right to receive this special cash dividend.

Share Repurchases

On June 12, 2017, we repurchased, in a privately negotiated transaction, canceled and retired 26,181,818 shares of Common Stock from Urban II. The aggregate purchase price was \$576,000,000, or \$22.00 per share. We funded the repurchase using available cash from asset sales and short-term borrowings on our unsecured credit facility. As a result of the repurchase, our stockholders' equity was reduced by the amount we paid for the repurchased shares and the related expenses. The Company paid a special cash dividend, as described above, on June 27, 2017 that allowed stockholders that did not participate in the June 12, 2017 private repurchase to receive the economic benefit of such repurchase.

On September 14, 2016, we repurchased, in a privately negotiated transaction, canceled and retired 3,628,116 shares of Common Stock from Urban II. The aggregate purchase price was \$79,819,000, or \$22.00 per share. We funded the repurchase using proceeds from the six mortgage loans obtained in June 2016. As a result of the repurchase, our stockholders' equity was further reduced by the amount we paid for the repurchased shares and the related expenses. The Company paid a special cash dividend, as described above, on April 24, 2017 that allowed stockholders that did not participate in the September 14, 2016 private repurchase to receive the economic benefit of such repurchase.

In addition, on May 16, 2016, we commenced a cash tender offer to purchase up to 10,000,000 shares of our Common Stock at a price of \$21.00 per share. The tender offer expired on June 13, 2016. The tender offer was oversubscribed and, pursuant to the terms of the tender offer, shares of Common Stock were accepted on a pro rata basis. In connection with the tender offer, we repurchased, canceled and retired 10,000,000 shares of our Common Stock for an aggregate purchase price of \$210,000,000, excluding fees and expenses related to the tender offer, which were \$301,000. Based on the actual total number of shares tendered, Urban II received \$208,140,000 of the aggregate purchase price paid. We funded the tender offer using available cash from asset sales and borrowings on our unsecured credit facility. The purchased shares represented approximately 10.24% of our then-outstanding shares of Common Stock. As a result of the repurchase, our stockholders' equity was reduced by the amount we paid for the repurchased shares and the related expenses.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

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Warrants

Each Unit consists of (i) one share of Series A Preferred Stock (Note 11) and (ii) one Warrant (Note 11) which allows the holder to purchase 0.25 of a share of Common Stock. The Warrants are exercisable beginning on the first anniversary of the date of their original issuance until and including the fifth anniversary of the date of such issuance. The exercise price of each Warrant is at a 15.0% premium to the per share estimated net asset value of our Common Stock (as most recently published by us at the time of each issuance).

Proceeds and expenses from the sale of the Units are allocated to the Series A Preferred Stock and Warrants using their relative fair values on the date of issuance. As of June 30, 2017, we had issued 308,775 Warrants in connection with our offering of Units and allocated net proceeds of \$32,000, after specifically identifiable offering costs and allocated general offering costs, to the Warrants in permanent equity.

13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Hedges of Interest Rate Risk

In order to manage financing costs and interest rate exposure related to our \$385,000,000 unsecured term loan facility (Note 8), on August 13, 2015, we entered into interest rate swap agreements with multiple counterparties. These swap agreements became effective on November 2, 2015. Each of our interest rate swap agreements meets the criteria for cash flow hedge accounting treatment and we have designated the interest rate swap agreements as cash flow hedges of the risk of variability attributable to changes in the one-month LIBOR on the term loan facility. Accordingly, the interest rate swaps are recorded on the consolidated balance sheets at fair value and the changes in the fair value of the swaps are recorded in OCI and reclassified to earnings as an adjustment to interest expense as interest becomes receivable or payable (Note 2). We do not expect any significant losses from counterparty defaults related to our swap agreements.

Summary of Derivatives

The following table sets forth the key terms of our interest rate swap contracts:

<u>Number of Interest Rate Swaps(1)(2)</u>	<u>Total Notional Amount (in thousands)</u>	<u>Fixed Rates</u>	<u>Floating Rate Index</u>	<u>Effective Date</u>	<u>Expiration Date</u>
10	\$ 385,000	1.559% - 1.569%	One-Month LIBOR	11/2/2015	5/8/2020

(1) See Note 14 for our fair value disclosures.

(2) Our interest rate swaps are not subject to master netting arrangements.

These swaps hedge the future cash flows of interest payments on our \$385,000,000 unsecured term loan facility by fixing the rate until May 8, 2020 at a weighted average rate of 1.563% plus the credit spread, which was 1.60% at June 30, 2017 and December 31, 2016, or an all-in rate of 3.16%.

Credit-Risk-Related Contingent Features

Each of our interest rate swap agreements contains a provision under which we could also be declared in default under such agreements if we default on the term loan facility. As of June 30, 2017 and December 31, 2016, there have been no events of default under our interest rate swap agreements.

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Impact of Hedges on AOCI and Consolidated Statements of Operations

The changes in the balance of each component of AOCI related to our interest rate swaps designated as cash flow hedges are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Accumulated other comprehensive income (loss), at beginning of period	\$ 1,043	\$ (10,444)	\$ (509)	\$ (2,519)
Other comprehensive income (loss) before reclassifications	(983)	(3,535)	(189)	(12,568)
Amounts reclassified from accumulated other comprehensive income (loss) (1)	543	1,090	1,301	2,198
Net current period other comprehensive income (loss)	(440)	(2,445)	1,112	(10,370)
Accumulated other comprehensive income (loss), at end of period	<u>\$ 603</u>	<u>\$ (12,889)</u>	<u>\$ 603</u>	<u>\$ (12,889)</u>

(1) The amounts from AOCI are reclassified as an increase to interest expense in the statements of operations.

Future Reclassifications from AOCI

We estimate that \$1,108,000 related to our derivatives designated as cash flow hedges will be reclassified out of AOCI as an increase to interest expense during the next twelve months.

On August 3, 2017, we repaid \$65,000,000 of outstanding borrowings on our unsecured term loan facility. In connection with such pay down, we terminated three interest rate swaps with an aggregate notional value of \$65,000,000. Costs incurred to terminate such swaps totaled \$38,000, which will be reflected in earnings. At June 30, 2017, a positive fair value of \$101,000 was included in accumulated other comprehensive income on our consolidated balance sheet related to the swaps that we terminated.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

We determine the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. The hierarchy for inputs used in measuring fair value is as follows:

Level 1 Inputs —Quoted prices in active markets for identical assets or liabilities

Level 2 Inputs —Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 Inputs —Unobservable inputs

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

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Our derivative financial instruments (Note 13) are measured at fair value on a recurring basis and are presented on our consolidated balance sheets at fair value, on a gross basis, excluding accrued interest. The table below presents the fair value of our derivative financial instruments as well as their classification on our consolidated balance sheets:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>Level</u>	<u>Balance Sheet Location</u>
	(in thousands)			
Assets (Liabilities):				
Interest rate swaps	\$ 603	\$ (509)	2	Other assets (Other liabilities)

Interest Rate Swaps —We estimate the fair value of our interest rate swaps by calculating the credit-adjusted present value of the expected future cash flows of each swap. The calculation incorporates the contractual terms of the derivatives, observable market interest rates which we consider to be Level 2 inputs, and credit risk adjustments, if any, to reflect the counterparty's as well as our own nonperformance risk.

The estimated fair values of those financial instruments which are not recorded at fair value on a recurring basis on our consolidated balance sheets are as follows:

	<u>June 30, 2017</u>		<u>December 31, 2016</u>		
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Level</u>
	(in thousands)				
Assets:					
Loans receivable subject to credit risk	\$ 46,276	\$ 46,176	\$ 43,623	\$ 43,621	3
SBA 7(a) loans receivable, subject to secured borrowings	24,162	24,607	29,524	29,976	3
Other loans receivable	1,356	1,297	2,593	2,550	3
Liabilities:					
Mortgages payable (1)	414,672	417,912	530,793	516,892	3
Junior subordinated notes	25,093	25,490	25,055	25,173	3

(1) The June 30, 2017 carrying amount and estimated fair value of mortgages payable excludes two mortgage loans that have been classified as liabilities associated with assets held for sale on our consolidated balance sheet at June 30, 2017 (Notes 3 and 8).

Management's estimation of the fair value of our financial instruments other than our interest rate swaps is based on a Level 3 valuation in the fair value hierarchy established for disclosure of how a company values its financial instruments. In general, quoted market prices from active markets for the identical financial instrument (Level 1 inputs), if available, should be used to value a financial instrument. If quoted prices are not available for the identical financial instrument, then a determination should be made if Level 2 inputs are available. Level 2 inputs include quoted prices for similar financial instruments in active markets for identical or similar financial instruments in markets that are not active (i.e., markets in which there are few transactions for the financial instruments, the prices are not current, price quotations vary substantially, or in which little information is released publicly). There is limited reliable market information for our financial instruments other than our interest rate swaps and we utilize other methodologies based on unobservable inputs for valuation purposes since there are no Level 1 or Level 2 inputs available. Accordingly, Level 3 inputs are used to measure fair value.

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In general, estimates of fair value may differ from the carrying amounts of the financial assets and liabilities primarily as a result of the effects of discounting future cash flows. Considerable judgment is required to interpret market data and develop estimates of fair value. Accordingly, the estimates presented are made at a point in time and may not be indicative of the amounts we could realize in a current market exchange.

The carrying amounts of our secured borrowings and unsecured credit and term loan facilities approximate their fair values, as the interest rates on these securities are variable and approximate current market interest rates.

Loans Receivable Subject to Credit Risk and Other Loans Receivable—Loans receivable were initially recorded at estimated fair value at the Acquisition Date. Loans receivable originated subsequent to the Acquisition Date are recorded at cost upon origination and adjusted by net loan origination fees and discounts. In order to determine the estimated fair value of our loans receivable, we use a present value technique for the anticipated future cash flows using certain assumptions. At June 30, 2017, our assumptions included discount rates ranging from 8.75% to 13.75% and prepayment rates ranging from 5.80% to 20.00%. At December 31, 2016, our assumptions included discount rates ranging from 8.25% to 13.25% and prepayment rates ranging from 5.80% to 20.00%.

SBA 7(a) Loans Receivable, Subject to Secured Borrowings—These loans receivable represent the government guaranteed portion of loans which were sold with the proceeds received from the sale reflected as secured borrowings—government guaranteed loans. There is no credit risk associated with these loans since the SBA has guaranteed payment of the principal. In order to determine the estimated fair value of these loans receivable, we use a present value technique for the anticipated future cash flows taking into consideration the lack of credit risk and using a range of prepayment rates from 6.70% to 20.00% at both June 30, 2017 and December 31, 2016.

Mortgages Payable—The fair values of mortgages payable are estimated based on current interest rates available for debt instruments with similar terms. The fair value of our mortgages payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis is generally used to estimate the fair value of our mortgages payable, using rates ranging from 4.11% to 4.26% and 4.60% to 4.72% at June 30, 2017 and December 31, 2016, respectively.

Junior Subordinated Notes—The fair value of the junior subordinated notes is estimated based on current interest rates available for debt instruments with similar terms. Discounted cash flow analysis is generally used to estimate the fair value of our junior subordinated notes. The rate used was 5.05% and 4.83% at June 30, 2017 and December 31, 2016, respectively.

15. RELATED-PARTY TRANSACTIONS

In May 2005, CIM Urban and CIM Urban REIT Management, L.P., each an affiliate of CIM REIT and CIM Group, entered into an Investment Management Agreement, pursuant to which CIM Urban engaged CIM Urban REIT Management, L.P. to provide investment advisory services to CIM Urban. CIM Investment Advisors, LLC, an affiliate of CIM REIT and CIM Group, registered with the SEC as an investment adviser and, in connection with such registration, CIM Urban entered into a new Investment Management Agreement with CIM Investment Advisors, LLC, in December 2015, on terms substantially similar to those in the previous Investment Management Agreement, pursuant to which CIM Urban engaged CIM Investment Advisors, LLC to provide investment advisory services, and the previous Investment Management Agreement was terminated. “Advisor” refers to CIM Urban REIT Management, L.P. prior to December 10, 2015 and to CIM Investment Advisors, LLC on and after December 10, 2015.

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CIM Urban pays asset management fees to the Advisor on a quarterly basis in arrears. The fee is calculated as a percentage of the daily average adjusted fair value of CIM Urban's investments, as defined, as follows:

Daily Average Adjusted Fair Value of CIM Urban's Investments		Quarterly Fee Percentage
From Greater of	To and Including	
(in thousands)		
\$ —	\$ 500,000	0.2500%
500,000	1,000,000	0.2375%
1,000,000	1,500,000	0.2250%
1,500,000	4,000,000	0.2125%
4,000,000	20,000,000	0.1000%

The Advisor earned asset management fees of \$6,130,000 and \$6,238,000 for the three months ended June 30, 2017 and 2016, respectively, and \$12,544,000 and \$12,716,000 for the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017 and December 31, 2016, asset management fees of \$6,107,000 and \$6,448,000, respectively, were due to the Advisor.

CIM Management, Inc. and certain of its affiliates (collectively, the "CIM Management Entities"), all affiliates of CIM REIT and CIM Group, provide property management, leasing, and development services to CIM Urban. The CIM Management Entities earned property management fees, which are included in rental and other property operating expenses, totaling \$1,306,000 and \$1,405,000 for the three months ended June 30, 2017 and 2016, respectively, and \$2,738,000 and \$2,815,000 for the six months ended June 30, 2017 and 2016, respectively. CIM Urban also reimbursed the CIM Management Entities \$2,556,000 and \$2,245,000 during the three months ended June 30, 2017 and 2016, respectively, and \$4,686,000 and \$4,007,000 during the six months ended June 30, 2017 and 2016, respectively, for the cost of on-site personnel incurred on behalf of CIM Urban, which is included in rental and other property operating expenses. The CIM Management Entities earned leasing commissions of \$210,000 and \$688,000 for the three months ended June 30, 2017 and 2016, respectively, and \$371,000 and \$754,000 for the six months ended June 30, 2017 and 2016, respectively, which were capitalized to deferred charges. In addition, the CIM Management Entities earned construction management fees of \$91,000 and \$410,000 for the three months ended June 30, 2017 and 2016, respectively, and \$275,000 and \$668,000 for the six months ended June 30, 2017 and 2016, respectively, which were capitalized to investments in real estate.

At June 30, 2017 and December 31, 2016, fees payable and expense reimbursements due to the CIM Management Entities of \$2,450,000 and \$2,027,000, respectively, are included in due to related parties. Also included in due from related parties as of June 30, 2017 and December 31, 2016, was \$591,000 and \$214,000, respectively, due from the CIM Management Entities and related parties.

On the Acquisition Date, pursuant to the terms of the Merger Agreement, CIM Commercial and its subsidiaries entered into the Master Services Agreement (the "Master Services Agreement") with CIM Service Provider, LLC (the "Manager"), an affiliate of CIM Group, pursuant to which the Manager agrees to provide or arrange for other service providers to provide management and administration services to CIM Commercial and its subsidiaries following the Merger. Pursuant to the Master Services Agreement, we appointed an affiliate of CIM Group as the manager of Urban Partners GP, LLC. Under the Master Services Agreement, CIM Commercial pays a base service fee (the "Base Service Fee") to the Manager initially set at \$1,000,000 per year (subject to an annual escalation by a specified inflation factor beginning on January 1, 2015), payable quarterly in arrears. The Manager earned a Base Service Fee of \$265,000 and \$271,000 for the three months ended June 30, 2017 and 2016, respectively, and \$530,000 and \$525,000 for the six months ended June 30, 2017 and 2016, respectively. In addition, pursuant to the terms of the Master Services Agreement, the Manager may receive compensation and/or reimbursement for performing certain services for CIM Commercial and its subsidiaries that are not covered under the Base Service Fee. During the six months ended June 30, 2017 and 2016, such services performed by the Manager included accounting, tax, reporting, internal audit, legal, compliance, risk management, IT, human resources and corporate communications. The Manager's compensation is based on the salaries and benefits of the employees of the Manager and/or its affiliates who performed these services (allocated based on the percentage of time spent on the affairs of CIM Commercial and its subsidiaries). We expensed \$560,000 and \$860,000 for the three months ended June 30, 2017 and 2016, respectively, and \$1,622,000 and \$1,726,000 for the six months ended June 30, 2017 and 2016, respectively, for such services which are included in asset management and other fees to related parties. At June 30, 2017 and December 31, 2016, \$2,234,000 and \$1,935,000 was due to the Manager, respectively, for such services.

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On January 1, 2015, we entered into a Staffing and Reimbursement Agreement with CIM SBA Staffing, LLC (“CIM SBA”), an affiliate of CIM Group and our subsidiary, PMC Commercial Lending, LLC. The Agreement provides that CIM SBA will provide personnel and resources to us and that we will reimburse CIM SBA for the costs and expenses of providing such personnel and resources. For the three months ended June 30, 2017 and 2016, we incurred expenses related to services subject to reimbursement by us under this agreement of \$784,000 and \$884,000, respectively, which are included in asset management and other fees to related parties for lending segment costs included in continuing operations, \$124,000 and \$123,000, respectively, for corporate services, which are included in asset management and other fees to related parties, and \$0 and \$148,000, respectively, which are included in discontinued operations; for the six months ended June 30, 2017 and 2016, we incurred expenses related to such services of \$1,628,000 and \$1,814,000, respectively, which are included in asset management and other fees to related parties for lending segment costs included in continuing operations, \$239,000 and \$226,000, respectively, for corporate services, which are included in asset management and other fees to related parties, and \$0 and \$280,000, respectively, which are included in discontinued operations. In addition, we deferred personnel costs of \$110,000 and \$70,000 for the three months ended June 30, 2017 and 2016, respectively, and \$154,000 and \$149,000 for the six months ended June 30, 2017 and 2016, respectively, associated with services provided for originating loans.

On October 1, 2015, an affiliate of CIM Group entered into a 5-year lease renewal with respect to a property owned by the Company. We recorded rental and other property income related to this tenant of \$27,000 for each of the three months ended June 30, 2017 and 2016 and \$54,000 for each of the six months ended June 30, 2017 and 2016.

On May 16, 2016, we announced a cash tender offer to purchase up to 10,000,000 shares of our Common Stock at a price of \$21.00 per share. In connection with the tender offer, we repurchased, canceled and retired 10,000,000 shares of our Common Stock for an aggregate purchase price of \$210,000,000, excluding fees and expenses related to the tender offer, which were \$301,000. Based on the actual total number of shares tendered, Urban II received \$208,140,000 of the aggregate purchase price paid (Note 12).

In addition, on June 12, 2017, we repurchased, in a privately negotiated transaction, canceled and retired 26,181,818 shares of Common Stock from Urban II. The aggregate purchase price was \$576,000,000, or \$22.00 per share (Note 12).

16. COMMITMENTS AND CONTINGENCIES

Loan Commitments—Commitments to extend credit are agreements to lend to a customer provided the terms established in the contract are met. Our outstanding loan commitments to fund loans were \$25,877,000 at June 30, 2017 and are for prime-based loans to be originated by our subsidiary engaged in SBA 7(a) Program lending, the government guaranteed portion of which is intended to be sold. Commitments generally have fixed expiration dates. Since some commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements.

General—In connection with the ownership and operation of real estate properties, we have certain obligations for the payment of tenant improvement allowances and lease commissions in connection with new leases and renewals. CIM Commercial had a total of \$29,971,000 in future obligations under leases to fund tenant improvements and other future construction obligations at June 30, 2017. At June 30, 2017, \$12,648,000 was funded to reserve accounts included in restricted cash on our consolidated balance sheet for these tenant improvement obligations in connection with the mortgage loan agreements entered into in June 2016.

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Employment Agreements —We have employment agreements with two of our officers. Pursuant to these employment agreements, we issued an aggregate of 76,423 shares of Common Stock under the 2015 Equity Incentive Plan as retention bonuses to these officers in January 2016 (as each executive was not entitled to any disability, death or severance payments on such date). These shares vested immediately. We accrued associated payroll taxes of \$444,000 at December 31, 2015, which were paid in January 2016, and recorded no compensation expense during the three and six months ended June 30, 2017 and 2016 related to these retention bonuses. In addition, under certain circumstances, each of these employment agreements currently provides for (1) severance payment equal to the annual base salary paid to the officer and (2) death and disability payments in an amount equal to two times and one time, respectively, the annual base salary paid to the officers. At June 30, 2017, there was no unrecognized compensation expense related to these awards.

Litigation —We are not currently involved in any material pending or threatened legal proceedings nor, to our knowledge, are any material legal proceedings currently threatened against us, other than routine litigation arising in the ordinary course of business. In the normal course of business, we are periodically party to certain legal actions and proceedings involving matters that are generally incidental to our business. While the outcome of these legal actions and proceedings cannot be predicted with certainty, in management's opinion, the resolution of these legal proceedings and actions will not have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

In April 2017, the City and County of San Francisco filed suit against certain of our subsidiaries and us claiming past due real property transfer tax relating to a transaction in a prior year totaling, as of June 30, 2017, approximately \$11,592,000, including penalties and interest. In June 2017, we filed a demurrer against the City and County of San Francisco. The demurrer was denied in July 2017. We filed a writ to appeal the denial of the demurrer in early August 2017. If the writ is denied, we will need to pay the City and County of San Francisco such asserted tax obligations in order to continue to contest them. Accordingly, we have accrued \$11,592,000 related to the asserted tax obligations as of June 30, 2017 and have reflected the related expense in transaction costs in our consolidated statements of operations for the three and six months ended June 30, 2017. Due to the early stage of the suit and the uncertainty and risks inherent in litigation, we cannot determine the amount, if any, of the previously assessed and currently accrued tax obligations, will be recovered through the appeal process. We believe that we have defenses to, and intend to continue to vigorously contest, the asserted tax obligations.

SBA Related —If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced under the SBA 7(a) Program, the SBA may seek recovery of the principal loss related to the deficiency from us. With respect to the guaranteed portion of SBA loans that have been sold, the SBA will first honor its guarantee and then seek compensation from us in the event that a loss is deemed to be attributable to technical deficiencies. Based on historical experience, we do not expect that this contingency is probable to be asserted. However, if asserted, it could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Environmental Matters —In connection with the ownership and operation of real estate properties, we may be potentially liable for costs and damages related to environmental matters, including asbestos-containing materials. We have not been notified by any governmental authority of any noncompliance, liability, or other claim in connection with any of the properties, and we are not aware of any other environmental condition with respect to any of the properties that management believes will have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Rent Expense —The ground lease for a property provides for current annual rent of \$503,000, payable quarterly, with increases every five years after July 1, 2015 based on the greater of 15% or 50% of the increase in the Consumer Price Index during a five-year adjustment period. In addition, commencing on July 1, 2040 and July 1, 2065, the rent payable during the balance of the lease term shall be increased by an amount equal to 10% of the rent payable during the immediately preceding lease year. The lease term is through May 31, 2089. If the landlord decides to sell the leased property, we have the right of first refusal.

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Rent expense under this lease, which includes straight-line rent and amortization of acquired below-market ground lease, was \$438,000 for each of the three months ended June 30, 2017 and 2016 and \$876,000 for each of the six months ended June 30, 2017 and 2016. We record rent expense on a straight-line basis. Straight-line rent liability of \$13,843,000 and \$13,289,000 is included in other liabilities in the accompanying consolidated balance sheets as of June 30, 2017 and December 31, 2016, respectively.

We lease office space in Dallas, Texas under a lease which expires in May 2018. We recorded rent expense of \$56,000 and \$56,000 for the three months ended June 30, 2017 and 2016, respectively, and \$112,000 and \$114,000 for the six months ended June 30, 2017 and 2016, respectively.

Scheduled future noncancelable minimum lease payments at June 30, 2017 are as follows:

<u>Years Ending December 31,</u>	<u>(in thousands)</u>
2017 (Six months ending December 31, 2017)	\$ 375
2018	607
2019	503
2020	541
2021	578
Thereafter	127,101
	<u>\$ 129,705</u>

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17. FUTURE MINIMUM LEASE RENTALS

Future minimum rental revenue under long-term operating leases at June 30, 2017, excluding tenant reimbursements of certain costs, are as follows:

Years Ending December 31,	Governmental Tenants (1)	Other Tenants (1) (in thousands)	Total
2017 (Six months ending December 31, 2017)	\$ 23,641	\$ 42,985	\$ 66,626
2018	47,795	84,583	132,378
2019	50,079	76,353	126,432
2020	48,002	67,531	115,533
2021	36,307	56,511	92,818
Thereafter	122,999	168,790	291,789
	\$ 328,823	\$ 496,753	\$ 825,576

(1) Excludes future minimum rental revenue of 7083 Hollywood Boulevard, which is classified as held for sale on our consolidated balance sheet at June 30, 2017 (Note 3).

18. CONCENTRATIONS

Tenant Revenue Concentrations —Rental revenue, excluding tenant reimbursements of certain costs, from the U.S. General Services Administration and other government agencies (collectively, “Governmental Tenants”), which primarily occupy properties located in Washington, D.C., accounted for approximately 21.4% and 19.0% of our rental and other property income for the three months ended June 30, 2017 and 2016, respectively, and 20.4% and 19.5% for the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017 and December 31, 2016, \$11,946,000 and \$8,339,000, respectively, was due from Governmental Tenants (Note 17).

Geographical Concentrations of Investments in Real Estate —As of June 30, 2017 and December 31, 2016, we owned 17 and 20 office properties, respectively, two and five multifamily properties, respectively, one hotel property, two and three parking garages, respectively, and two development sites, one of which is being used as a parking lot. These properties are located in three and four states, respectively, and Washington, D.C.

Our revenue concentrations from properties are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
California	61.1%	65.1%	62.2%	64.9%
Washington, D.C.	23.7	20.6	22.2	20.9
Texas	8.0	8.1	7.9	8.0
North Carolina	4.9	4.2	5.6	4.2
New York	2.3	2.0	2.1	2.0
	100.0%	100.0%	100.0%	100.0%

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and
for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)**

Our real estate investments concentrations from properties are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
California (1)	50.2%	50.8%
Washington, D.C.	39.9	32.3
Texas (1)	5.2	7.7
New York (1)	4.7	3.7
North Carolina	—	5.5
	<u>100.0%</u>	<u>100.0%</u>

(1) Includes the assets of 7083 Hollywood Boulevard, 4200 Scotland Street, and 47 E 34th Street, all of which are classified as held for sale on our consolidated balance sheet at June 30, 2017 (Note 3).

19. SEGMENT DISCLOSURE

In accordance with ASC Topic 280, *Segment Reporting*, our reportable segments consist of three types of commercial real estate properties, namely, office, hotel and multifamily, as well as a segment for our lending business that is included in our continuing operations. The lending business that is held for sale for the three and six months ended June 30, 2016 is not included in our reportable segments. Management internally evaluates the operating performance and financial results of the segments based on net operating income. We also have certain general and administrative level activities, including public company expenses, legal, accounting, and tax preparation that are not considered separate operating segments. The reportable segments are accounted for on the same basis of accounting as described in the notes to our audited consolidated financial statements for the year ended December 31, 2016 included in our Annual Report on Form 10-K filed with the SEC on March 16, 2017.

We evaluate the performance of our real estate segments based on net operating income, which is defined as rental and other property income and expense reimbursements less property related expenses, and excludes non-property income and expenses, interest expense, depreciation and amortization, corporate related general and administrative expenses, gain (loss) on sale of real estate, impairment of real estate, transaction costs, and provision for income taxes. For the lending segment, we define net operating income as interest income net of interest expense and general overhead expenses.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and
for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)**

The net operating income of our segments included in continuing operations for the three and six months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Office:				
Revenues	\$ 43,914	\$ 45,770	\$ 93,007	\$ 91,819
Property expenses:				
Operating	17,804	19,930	31,557	38,417
General and administrative	394	91	682	445
Total property expenses	18,198	20,021	32,239	38,862
Segment net operating income—office	25,716	25,749	60,768	52,957
Hotel:				
Revenues	10,604	14,496	21,122	29,779
Property expenses:				
Operating	6,586	9,431	13,025	19,386
General and administrative	35	306	39	393
Total property expenses	6,621	9,737	13,064	19,779
Segment net operating income—hotel	3,983	4,759	8,058	10,000
Multifamily:				
Revenues	4,714	5,172	9,717	10,230
Property expenses:				
Operating	2,859	2,938	5,627	5,774
General and administrative	113	97	342	355
Total property expenses	2,972	3,035	5,969	6,129
Segment net operating income—multifamily	1,742	2,137	3,748	4,101
Lending:				
Revenues	2,067	2,922	4,402	5,149
Lending expenses:				
Interest expense	(55)	(7)	87	182
Fees to related party	784	884	1,628	1,814
General and administrative	310	419	677	598
Total lending expenses	1,039	1,296	2,392	2,594
Segment net operating income—lending	1,028	1,626	2,010	2,555
Total segment net operating income	\$ 32,469	\$ 34,271	\$ 74,584	\$ 69,613

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and
for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)**

A reconciliation of our segment net operating income to net income attributable to the Company for the three and six months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Total segment net operating income	\$ 32,469	\$ 34,271	\$ 74,584	\$ 69,613
Asset management and other fees to related parties	(7,079)	(7,492)	(14,935)	(15,193)
Interest expense	(9,568)	(7,302)	(19,199)	(13,928)
General and administrative	(795)	(1,218)	(1,586)	(2,282)
Transaction costs	(11,615)	(118)	(11,628)	(267)
Depreciation and amortization	(14,761)	(18,480)	(31,992)	(36,538)
Impairment of real estate	(13,100)	—	(13,100)	—
Gain on sale of real estate	116,283	—	304,017	24,739
Income (loss) from continuing operations before provision for income taxes	91,834	(339)	286,161	26,144
Provision for income taxes	(462)	(471)	(854)	(661)
Net income (loss) from continuing operations	91,372	(810)	285,307	25,483
Discontinued operations:				
Income from operations of assets held for sale	—	1,668	—	2,358
Net income from discontinued operations	—	1,668	—	2,358
Net income	91,372	858	285,307	27,841
Net income attributable to noncontrolling interests	(9)	(9)	(14)	(12)
Net income attributable to the Company	\$ 91,363	\$ 849	\$ 285,293	\$ 27,829

The condensed assets for each of the segments as of June 30, 2017 and December 31, 2016, along with capital expenditures and loan originations for the six months ended June 30, 2017 and 2016, are as follows:

	June 30, 2017	December 31, 2016
	(in thousands)	
Condensed assets:		
Office (1)	\$ 1,235,540	\$ 1,568,702
Hotel	110,655	115,955
Multifamily (2)	107,412	170,159
Lending assets	86,307	91,191
Non-segment assets	98,041	76,877
Total assets	\$ 1,637,955	\$ 2,022,884

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements as of June 30, 2017 and December 31, 2016, and
for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)**

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Capital expenditures (3):		
Office	\$ 11,973	\$ 18,839
Hotel	74	336
Multifamily	224	241
Total capital expenditures	12,271	19,416
Loan originations	23,875	49,976
Total capital expenditures and loan originations (4)	\$ 36,146	\$ 69,392

-
- (1) Includes the assets of 7083 Hollywood Boulevard, which are classified as held for sale on our consolidated balance sheet at June 30, 2017 (Note 3).
 - (2) Includes the assets of 4200 Scotland Street and 47 E 34th Street, both of which are classified as held for sale on our consolidated balance sheet at June 30, 2017 (Note 3).
 - (3) Represents additions and improvements to real estate investments, excluding acquisitions.
 - (4) Includes the activity for dispositions through their respective disposition dates.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), which are intended to be covered by the safe harbors created thereby. Such forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "might," "believe," "anticipate," "seek," "plan," "estimate," "could," "would," "continue," "pursue," or "should" or the negative thereof or other variations or similar words or phrases. These statements include the plans and objectives of management for future operations, including, but not limited to, plans and objectives relating to future growth and availability of funds. The forward-looking statements included herein are based on current expectations and there can be no assurance that these expectations will be attained. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q 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 us or any other person that our objectives and plans will be achieved. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made. We do not undertake to update them to reflect changes that occur after the date they are made.

The following discussion of our financial condition at June 30, 2017 and results of operations for the three and six months ended June 30, 2017 and 2016 should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016. For a more detailed description of the risks affecting our financial condition and results of operations, see "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

Executive Summary

Business Overview

CIM Commercial is a Maryland corporation and REIT. Our principal business is to invest in, own, and operate Class A and creative office investments 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 believe that the critical mass of redevelopment in such areas creates positive externalities, which enhance the value of substantially stabilized assets in the area. We believe that these assets will provide greater returns than similar assets in other markets as a result of the improving demographics, public commitment, and significant private investment that characterize these areas.

Our two primary goals are (a) consistently growing our net asset value ("NAV") and cash flows per share of Common Stock through our principal business and (b) providing liquidity to our common stockholders at prices reflecting our NAV and cash flow prospects. In that regard, in June 2016 we completed a tender offer for 10,000,000 shares of Common Stock at a price of \$21.00 per share of Common Stock; in September 2016, we repurchased in a privately negotiated transaction, 3,628,116 shares of our Common Stock at \$22.00 per share from Urban II; and in June 2017, we repurchased in a privately negotiated transaction, 26,181,818 shares of our Common Stock at \$22.00 per share from Urban II. Additionally, in April 2017, we declared and paid a special cash dividend of \$0.28 per share of Common Stock, or \$601,000, to the common stockholders that did not participate in the September 2016 private repurchase and, in June 2017, we declared and paid a special cash dividend of \$1.98 per share of Common Stock, or \$4,271,000, to the common stockholders that did not participate in the June 2017 private repurchase. These special cash dividends allowed such common stockholders that did not participate in the September 2016 and June 2017 private repurchases to receive the economic benefits of such repurchases. In furtherance of our two primary goals, we anticipate additional share repurchases and/or special dividends in the future.

We are managed by affiliates of CIM Group. Our wholly-owned subsidiary, CIM Urban, is party to an Investment Management Agreement with CIM Investment Advisors, LLC, an affiliate of CIM REIT and CIM Group, pursuant to which CIM Investment Advisors, LLC provides investment advisory services to CIM Urban. In addition, we are party to a Master Services Agreement with the Manager, an affiliate of CIM Group, pursuant to which the Manager agrees to provide or arrange for other service providers to provide management and administration services (“Base Service”) to us and all of our direct and indirect subsidiaries. CIM Group is a vertically-integrated, full-service investment manager with multidisciplinary expertise and in-house research, acquisition, investment, development, finance, leasing, and management capabilities. CIM Group is headquartered in Los Angeles, California and has offices in Oakland, California; Bethesda, Maryland; Dallas, Texas; and New York, New York.

Properties

As of June 30, 2017, our real estate portfolio consisted of 20 office properties (including one parking garage and two development sites, one of which is being used as a parking lot) totaling approximately 4.1 million rentable square feet, two multifamily properties comprised of 418 units, and one hotel with 503 rooms.

During the three months ended June 30, 2017, we sold three of our five multifamily properties and we entered into purchase and sale agreements that were subject to nonrefundable deposits for our two remaining multifamily properties and one office property, which are classified as held for sale on our consolidated balance sheet.

Strategy

Our investment strategy is to continue to primarily invest in Class A and creative office investments in vibrant and improving urban communities throughout the United States in a manner that will allow us to increase our NAV and cash flows per share of Common Stock. Our investment strategy is centered around CIM’s community qualification process. We believe this strategy provides us with a significant competitive advantage when making urban real estate investments. The qualification process generally takes between six months and five years and is a critical component of CIM’s investment evaluation. CIM examines the characteristics of a market to determine whether the district justifies the extensive efforts CIM undertakes in reviewing and making potential investments in its qualified communities (“Qualified Communities”). Qualified Communities generally fall into one of two categories: (i) transitional urban districts that have dedicated resources to become vibrant urban communities and (ii) well-established, thriving urban areas (typically major central business districts). Qualified Communities are distinct districts which have dedicated resources to become or are currently vibrant communities where people can live, work, shop and be entertained—all within walking distance or close proximity to public transportation. These areas also generally have high barriers to entry, high population density, improving demographic trends and a propensity for growth. CIM believes that a vast majority of the risks associated with making real asset investments are mitigated by accumulating local market knowledge of the community where the investment lies. CIM typically spends significant time and resources qualifying targeted investment communities prior to making any acquisitions. Since 1994, CIM Group has qualified 105 communities and has deployed capital in 63 of these Qualified Communities. Although we may not invest exclusively in Qualified Communities, it is expected that most of our investments will be identified through this systematic process. Our investments may also include side-by-side investments in one or more CIM Group-managed funds as well as a side-by-side or direct investment in a CIM Group-managed debt fund that principally originates loans secured directly or indirectly by commercial real estate properties. Furthermore, as part of our investment strategy, we may invest in or originate loans that are secured directly or indirectly by properties primarily located in Qualified Communities that meet our investment strategy. Such loans may include limited and/or non-recourse junior (mezzanine, B-note or 2nd lien) and senior construction loans that meet our investment strategy or limited and/or non-recourse junior (mezzanine, B-note or 2nd lien) and senior acquisition, bridge or repositioning loans.

CIM seeks to maximize the value of its investments through active asset management. CIM has extensive in-house research, acquisition, investment, development, financing, leasing and property management capabilities, which leverage its deep understanding of urban communities to position properties for multiple uses and to maximize operating income. As a fully integrated owner and operator, CIM’s asset management capabilities are complemented by its in-house property management capabilities. Property managers prepare annual capital and operating budgets and monthly operating reports, monitor results and oversee vendor services, maintenance and capital improvement schedules. In addition, they ensure that revenue objectives are met, lease terms are followed, receivables are collected, preventative maintenance programs are implemented, vendors are

evaluated and expenses are controlled. CIM's asset management committee reviews and approves strategic plans for each investment, including financial, leasing, marketing, property positioning and disposition plans. In addition, the asset management committee reviews and approves the annual business plan for each property, including its capital and operating budget. CIM's organizational structure provides for investment and asset management continuity through multi-disciplinary teams responsible for an asset from the time of the original investment recommendation, through the implementation of the asset's business plan, and any disposition activities.

As a matter of prudent management, we also regularly evaluate each investment within our portfolio as well as our strategies. Such review may result in dispositions when an investment no longer fits our overall objectives or investment strategies or when our view of the market value of such investment is equal to or exceeds its intrinsic value. As a result of such review, we sold an office building in Santa Ana, California in November 2015; a hotel in Oakland, California in February 2016; a hotel in Los Angeles, California in July 2016; an office building in San Francisco, California in March 2017; two multifamily properties in Dallas, Texas in May 2017; an office building in Charlotte, North Carolina in June 2017; an office building and a parking garage in Sacramento, California in June 2017; and a multifamily property in Dallas, Texas in June 2017. In addition, we have entered into three purchase and sale agreements, each as a separate transaction with unrelated third parties, for the sale of an office property in Los Angeles, California; a multifamily property in Houston, Texas; and a multifamily property in New York, New York, which are all classified as held for sale on our consolidated balance sheet as of June 30, 2017. We expect the closings of these sales transactions to occur during the second half of 2017. Such review is likely to result in additional dispositions in 2017 and 2018. We are considering using a substantial portion of the net proceeds of such dispositions to provide liquidity to our common stockholders from time to time in 2017 and 2018 at prices reflecting our NAV and cash flow prospects.

Rental Rate Trends

Office Statistics: The following table sets forth occupancy rates and annualized rent per occupied square foot across our office portfolio as of the specified periods:

	<u>As of June 30,</u>	
	<u>2017</u>	<u>2016</u>
Occupancy (1)	86.6%	83.5%
Annualized rent per occupied square foot (1) (2)	\$ 41.04	\$ 36.77

(1) Three office properties and a parking garage were sold during the first half of 2017 and one property was classified as held for sale as of June 30, 2017 (Note 3). Excluding these properties, the occupancy and annualized rent per occupied square foot were 86.4% and \$41.12 as of June 30, 2017 and 86.1% and \$39.72 as of June 30, 2016. No office properties were sold in the second half of 2016.

(2) Represents gross monthly base rent under leases commenced as of the specified periods, multiplied by twelve. This amount reflects total cash rent before abatements. Total abatements for the twelve months ended June 30, 2017 and 2016 were approximately \$4,899,000 and \$3,650,000, respectively. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent. Annualized rent for certain office properties includes rent attributable to retail.

Over the next four quarters, we expect to see expiring cash rents as set forth in the table below:

	For the Three Months Ended			
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018
Expiring Cash Rents (1):				
Expiring square feet (2)	66,969	56,332	91,893	15,789
Expiring rent per square foot (3)	\$ 33.59	\$ 43.99	\$ 34.57	\$ 38.94

- (1) Excludes the expiring square feet and rent related to 7083 Hollywood Boulevard, which is classified as held for sale on our consolidated balance sheet at June 30, 2017.
- (2) All month-to-month tenants occupying a total of 44,293 square feet are included in the expiring leases in the first quarter listed.
- (3) Represents gross monthly base rent, as of June 30, 2017, under leases expiring during the periods above, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

During the three and six months ended June 30, 2017, we executed leases with terms longer than 12 months totaling 111,216 and 193,986 square feet, respectively. The table below sets forth information on certain of our executed leases during the three and six months ended June 30, 2017, excluding space that was vacant for more than one year:

	Number of Leases (1) (2)	Rentable Square Feet (2)	New Cash Rents per Square Foot (2) (3)	Expiring Cash Rents per Square Foot (2) (3)
Three months ended June 30, 2017 (3)	9	27,649	\$ 50.92	\$ 44.36
Six months ended June 30, 2017 (3)	26	101,182	\$ 48.79	\$ 40.72

(1) Based on the number of tenants.

(2) Excludes leases for which the space was vacant for longer than one year, month-to-month leases, leases with an original term of less than 12 months, related party leases, and space where the previous tenant was a related party.

(3) Cash rents represent gross monthly base rent, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

Fluctuations in submarkets, buildings and terms of the leases cause large variations in these numbers and make predicting the changes in rent in any specific period difficult. Our rental and occupancy rates are impacted by general economic conditions, including the pace of regional and economic growth, and access to capital. Therefore, we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current market rates. Additionally, decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have further negative effects on our future financial condition, results of operations and cash flows.

Multifamily Statistics: The following table sets forth occupancy rates and the monthly rent per occupied unit across our multifamily portfolio for the specified periods:

	As of June 30,	
	2017	2016
Occupancy (1)	95.0%	94.8%
Monthly rent per occupied unit (1) (2)	\$ 2,488	\$ 1,914

(1) Three multifamily properties were sold during the first half of 2017 and the remaining two properties were classified as held for sale on our consolidated balance sheet as of June 30, 2017 (Note 3). Excluding the sold properties, the occupancy and monthly rent per occupied unit as of June 30, 2016 were 93.5% and \$2,423, respectively. No multifamily properties were sold in the second half of 2016.

(2) Represents gross monthly base rent under leases commenced as of the specified period, divided by occupied units. This amount reflects total cash rent before concessions.

Hotel Statistics: The following table sets forth the occupancy, average daily rate (“ADR”) and revenue per available room (“RevPAR”) for the hotel portfolio for the specified periods:

	For the Six Months Ended June 30,	
	2017	2016
Occupancy (1)	84.0%	80.9%
ADR (1)	\$ 165.44	\$ 141.70
RevPAR (1)	\$ 138.97	\$ 114.68

(1) Occupancy, ADR, and RevPAR includes activity for hotels that were sold in 2016 for our period of ownership only. Excluding the hotel properties that were sold in 2016, occupancy, ADR, and RevPAR for the six months ended June 30, 2016 were 81.5%, \$155.46, and \$126.65, respectively.

Lending Segment

In order to allow CIM Commercial to increase its focus on Class A and creative office investments, our Board of Directors approved a plan in December 2014 for the lending segment that, when completed, would have resulted in the deconsolidation of the lending segment, which at that time was focused on small business lending in the hospitality industry. In July 2015, to maximize value, we modified our strategy from a strategy of selling the lending segment as a whole to a strategy of soliciting buyers for components of the business, including our commercial mortgage loans and the SBA 7(a) lending platform. This change in the sale methodology resulted in the need to extend the period to complete the sale of the remainder of the lending segment beyond one year. On December 17, 2015, pursuant to the modified plan, we sold substantially all of our commercial mortgage loans with a carrying value of \$77,121,000 to an unrelated third party and recognized a gain of \$5,151,000. In September 2016, we discontinued our efforts to sell the SBA 7(a) lending platform, and the activities related to the SBA 7(a) lending platform have been reclassified to continuing operations for all periods presented. On December 29, 2016, we sold our commercial real estate lending subsidiary, which was classified as held for sale and had a carrying value of \$27,587,000, which was equal to management’s estimate of fair value, to a fund managed by an affiliate of CIM Group. We did not recognize any gain or loss in connection with the transaction. Management’s estimate of fair value was determined with assistance from an independent third party valuation firm.

Through our SBA 7(a) lending platform, we are a national lender that primarily originates loans to small businesses. We identify loan origination opportunities through personal contacts, internet referrals, attendance at trade shows and meetings, direct mailings, advertisements in trade publications and other marketing methods. We also generate loans through referrals from real estate and loan brokers, franchise representatives, existing borrowers, lawyers and accountants.

Results of Operations

Comparison of the Three Months Ended June 30, 2017 to the Three Months Ended June 30, 2016

Net Income

	Three Months Ended June 30,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
Total revenues	\$ 61,299	\$ 68,360	\$ (7,061)	(10.3)%
Total expenses	85,748	68,699	17,049	24.8%
Gain on sale of real estate	116,283	—	116,283	—
Net income from discontinued operations	—	1,668	(1,668)	—
Net income	91,372	858	90,514	—

Net income increased to \$91,372,000, or by \$90,514,000, for the three months ended June 30, 2017, compared to \$858,000 for the three months ended June 30, 2016. The increase is primarily attributable to the gain on sale of real estate of \$116,283,000, as well as a decrease of \$3,719,000 in depreciation and amortization expense, partially offset by \$13,100,000 of impairment of real estate, an increase of \$11,497,000 in transaction costs, a decrease of \$1,802,000 in net operating income of our operating segments in continuing operations, an increase of \$2,266,000 in interest expense and a decrease of \$1,668,000 in income from discontinued operations.

Funds from Operations (“FFO”)

We believe that FFO is a widely recognized and appropriate measure of the performance of a REIT and that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO represents net income (loss) available to common stockholders, computed in accordance with GAAP, excluding gains (or losses) from sales of real estate, impairment of real estate, and real estate depreciation and amortization. We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (“NAREIT”).

Like any metric, FFO should not be used as the only measure of our performance because it excludes depreciation and amortization and captures neither the changes in the value of our real estate properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our operating results. Other REITs may not calculate FFO in accordance with the standards established by the NAREIT; accordingly, our FFO may not be comparable to those other REITs’ FFO. Therefore, FFO should be considered only as a supplement to net income as a measure of our performance and should not be used as a supplement to or substitute measure for cash flow from operating activities computed in accordance with GAAP. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends.

The following table sets forth a reconciliation of net income available to common stockholders to FFO available to common stockholders:

	Three Months Ended June 30,	
	2017	2016
	(in thousands)	
Net income available to common stockholders	\$ 91,291	\$ 849
Depreciation and amortization	14,761	18,480
Impairment of real estate	13,100	—
Gain on sale of depreciable assets	(116,283)	—
FFO available to common stockholders	<u>\$ 2,869</u>	<u>\$ 19,329</u>

FFO available to common stockholders was \$2,869,000 for the three months ended June 30, 2017, a decrease of \$16,460,000 compared to \$19,329,000 for the three months ended June 30, 2016. The decrease in FFO was primarily attributable to an increase of \$11,497,000 in transaction costs, a decrease of \$1,802,000 in net operating income of our operating segments in continuing operations, an increase of \$2,266,000 in interest expense and a decrease of \$1,668,000 in income from discontinued operations.

Summary Segment Results

CIM Commercial operates in four segments: office, hotel, multifamily properties and lending. Set forth and described below are summary segment results for our four segments included in continuing operations.

	Three Months Ended June 30,		Change	
	2017	2016	\$	%
(dollars in thousands)				
Revenues:				
Office	\$ 43,914	\$ 45,770	\$ (1,856)	(4.1)%
Hotel	10,604	14,496	(3,892)	(26.8)%
Multifamily	4,714	5,172	(458)	(8.9)%
Lending	2,067	2,922	(855)	(29.3)%
Expenses:				
Office	18,198	20,021	(1,823)	(9.1)%
Hotel	6,621	9,737	(3,116)	(32.0)%
Multifamily	2,972	3,035	(63)	(2.1)%
Lending	1,039	1,296	(257)	(19.8)%

Revenues

Office Revenue: Office revenue includes rental revenue from office properties, expense reimbursements and lease termination income. Office revenue decreased to \$43,914,000, or by (4.1)%, for the three months ended June 30, 2017 compared to \$45,770,000 for the three months ended June 30, 2016. The decrease is primarily due to the sale of an office building in San Francisco, California in March 2017, partially offset by increases at certain California and Washington D.C. properties due to increases in both occupancy and rental rates. The sale of an office building in San Francisco, California in March 2017, an office building in Charlotte, North Carolina in June 2017, and an office building and parking garage in Sacramento, California in June 2017 will, and the sale of an office property in Los Angeles, California, which is held for sale at June 30, 2017, and the sale of any additional office properties during 2017, are expected to, cause office revenue to decline materially for the remainder of 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as the timing and number of dispositions that occur in 2017.

Hotel Revenue: Hotel revenue decreased to \$10,604,000, or by 26.8%, for the three months ended June 30, 2017 compared to \$14,496,000 for the three months ended June 30, 2016. The decrease is primarily due to the sale of a hotel property in Los Angeles, California in July 2016, partially offset by revenue increases at the remaining hotel property due to RevPAR growth resulting from increases in rates and occupancy.

Multifamily Revenue: Multifamily revenue decreased to \$4,714,000, or by 8.9%, for the three months ended June 30, 2017 compared to \$5,172,000 for the three months ended June 30, 2016. The decrease is primarily due to the sale of our three properties located in Dallas, Texas in May and June 2017. The sale of our three multifamily properties in Dallas, Texas, will, and the sale of our remaining two multifamily properties in New York, New York and Houston, Texas, which are held for sale at June 30, 2017, are expected to, cause multifamily revenue to decline materially for the remainder of 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as the timing and number of dispositions that occur in 2017.

Lending Revenue: Lending revenue represents revenue from our lending subsidiaries included in continuing operations, including interest income on loans and other loan related fee income. Lending revenue decreased to \$2,067,000, or by 29.3%, for the three months ended June 30, 2017 compared to \$2,922,000 for the three months ended June 30, 2016. The decrease is primarily due to a decrease in premium income from the sale of the guaranteed portion of our SBA 7(a) loans during the three months ended June 30, 2017.

Expenses

Office Expenses: Office expenses decreased to \$18,198,000, or by 9.1%, for the three months ended June 30, 2017 compared to \$20,021,000 for the three months ended June 30, 2016. The decrease is primarily due to the sale of an office building in San Francisco, California in March 2017 and a decrease in real estate taxes for the three months ended June 30, 2017 at our office building in Charlotte, North Carolina and at certain of our Washington, D.C. properties. The sale of an office building in San Francisco, California in March 2017, an office building in Charlotte, North Carolina in June 2017, and an office building and parking garage in Sacramento, California in June 2017 will, and the sale of an office property in Los Angeles, California, which is held for sale at June 30, 2017, and the sale of any additional office properties during 2017, are expected to, cause office expenses to decline materially for the remainder of 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as the timing and number of dispositions that occur in 2017.

Hotel Expenses: Hotel expenses decreased to \$6,621,000, or by 32.0%, for the three months ended June 30, 2017 compared to \$9,737,000 for the three months ended June 30, 2016. The decrease is primarily due to the sale of a hotel property in Los Angeles, California in July 2016.

Multifamily Expenses: Multifamily expenses decreased to \$2,972,000, or by 2.1%, for the three months ended June 30, 2017 compared to \$3,035,000 for the three months ended June 30, 2016. The decrease is primarily due to a decrease in in operating expenses at our Houston, Texas property. The sale of our three multifamily properties in Dallas, Texas, will, and the sale of our remaining two multifamily properties in New York, New York and Houston, Texas, which are held for sale at June 30, 2017, are expected to, cause multifamily expenses to decline materially for the remainder of 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as the timing and number of dispositions that occur in 2017.

Lending Expenses: Lending expenses represent expenses from our lending subsidiaries included in continuing operations, including general and administrative expenses and fees to related party, related to the operation of the lending business. Lending expenses decreased to \$1,039,000, or by 19.8%, for the three months ended June 30, 2017 compared to \$1,296,000 for the three months ended June 30, 2016, primarily due to a decrease in fees to related party and reductions in general and administrative costs associated with assets acquired in liquidation and professional fees.

Asset Management and Other Fees to Related Parties: Asset management fees totaled \$6,130,000 for the three months ended June 30, 2017 compared to \$6,238,000 for the three months ended June 30, 2016. Asset management fees are calculated based on a percentage of the daily average adjusted fair value of CIM Urban's investments, which are appraised in the fourth quarter of each year. The lower fees reflect a decrease in the adjusted fair value of CIM Urban's investments due to the sale of a hotel property in February 2016, the sale of a hotel property in July 2016, the sale of an office property in March 2017, the sale of two multifamily properties in May 2017, and the sale of two office properties, a parking garage, and one multifamily property in June 2017, offset by net increases in the fair value of CIM Urban's real estate investments based on the December 31, 2016 appraised values as well as incremental capital expenditures incurred in the first six months of 2017. CIM Commercial also pays a Base Service Fee to the Manager, a related party, which totaled \$265,000 for the three months ended June 30, 2017 compared to \$271,000 for the three months ended June 30, 2016. In addition, the Manager may receive compensation and/or reimbursement for performing certain services for CIM Commercial and its subsidiaries that are not covered under the Base Service Fee. For the three months ended June 30, 2017 and 2016, we expensed \$560,000 and \$860,000 for such services, respectively. For the three months ended June 30, 2017 and 2016, we also expensed \$124,000 and \$123,000, respectively, related to corporate services subject to reimbursement by us under the CIM SBA Staffing and Reimbursement Agreement. Asset management fees are expected to decline materially for the remainder of 2017 as a result of our completed sales, the disposition of assets held for sale at June 30, 2017, and any additional property sales that may occur during the remainder of 2017.

Interest Expense: Interest expense, which is not allocated to our operating segments, was \$9,568,000 for the three months ended June 30, 2017, an increase of \$2,266,000 compared to \$7,302,000 in the corresponding period in 2016. The increase is primarily due to interest expense on our \$392,000,000 mortgage loans entered into in June 2016, partially offset by a decrease in interest expense resulting from the sale of an office building in San Francisco, California in March 2017, and a decrease in interest expense, including the impact of interest rate swaps, and loan fee amortization expense under the unsecured

credit and term loan facilities, mainly due to lower average outstanding loan balances under the unsecured credit facility. Our interest expense is expected to decrease for the remainder of 2017 due to interest expense savings resulting from the payoff of a \$25,331,000 mortgage in March 2017 in connection with the sale of an office property in San Francisco, California, and the payoff of mortgages with a combined balance of \$38,781,000 in May and June 2017, in connection with the sale of three multifamily properties in Dallas, Texas. Additionally, we expect to have interest savings relating to the expected payoff of \$50,568,000 in mortgage loans associated with assets held for sale at June 30, 2017, and any other such loans that secure properties that we may sell in 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as usage of our revolving credit facility, the timing of the dispositions of assets held for sale, and whether any other sale of encumbered properties occurs.

General and Administrative Expenses: General and administrative expenses, which have not been allocated to our operating segments, were \$795,000 for the three months ended June 30, 2017, a decrease of \$423,000 compared to \$1,218,000 in the corresponding period in 2016. The decrease is primarily due to a decrease in legal, other consulting, professional fees, and shareholder services expenses.

Transaction Costs: Transaction costs totaling \$11,615,000 for the three months ended June 30, 2017 represent a \$11,497,000 increase from \$118,000 for the three months ended June 30, 2016, mainly due to an \$11,592,000 expense in connection with a suit filed by the City and County of San Francisco claiming past due real property transfer tax relating to a transaction in a prior year (Note 16). The Company believes that it has defenses to, and intends to continue to vigorously contest, the asserted tax obligations.

Depreciation and Amortization Expense: Depreciation and amortization expense was \$14,761,000 for the three months ended June 30, 2017, a decrease of \$3,719,000 compared to \$18,480,000 for the three months ended June 30, 2016. The decrease is primarily due to the sale of an office property in San Francisco, California held for sale starting in mid-February 2017, that was sold in March 2017, the sale of a hotel property in July 2016, the sale of three multifamily properties in Dallas, Texas, which were held for sale in May 2017 and sold in May and June 2017, the sale of two office properties and a parking garage in Sacramento, California and Charlotte, North Carolina, which were held for sale in April 2017 and sold in June 2017, and an office property in Los Angeles, California, which was held for sale in May 2017, partially offset by an increase in the depreciation expense associated with additional capital expenditures. Depreciation expense is expected to decline materially for the remainder of 2017 as a result of our completed sales, the disposition of assets held for sale at June 30, 2017, and any additional property sales that may occur during 2017.

Impairment of Real Estate: Impairment of real estate was \$13,100,000 for the three months ended June 30, 2017 and \$0 for the three months ended June 30, 2016. In August 2017, we negotiated an agreement with an unrelated third party for the sale of an office property. We determined the book value of this property exceeded its estimated fair value less costs to sell, and as such, an impairment charge of \$13,100,000 was recognized as of June 30, 2017. Our determination of fair value was based on negotiations with the third party buyer.

Provision for Income Taxes: Provision for income taxes was \$462,000 for the three months ended June 30, 2017, a decrease of \$9,000 compared to \$471,000 for the three months ended June 30, 2016.

Discontinued Operations

Net Income from Discontinued Operations: Net income from discontinued operations represents revenues and expenses from the part of our lending segment that is included in discontinued operations, including interest income on loans and other loan related fee income, offset by expenses, which include general and administrative expenses, fees to related party, and direct interest expense. Net income from discontinued operations was \$0 for the three months ended June 30, 2017, a decrease of \$1,668,000 compared to \$1,668,000 for the three months ended June 30, 2016. The decrease is due to the sale of our commercial real estate lending subsidiary in December 2016.

Comparison of the Six Months Ended June 30, 2017 to the Six Months Ended June 30, 2016

Net Income

	Six Months Ended June 30,		Change	
	2017	2016	\$	%
	(dollars in thousands)			
Total revenues	\$ 128,248	\$ 136,977	\$ (8,729)	(6.4)%
Total expenses	146,104	135,572	10,532	7.8%
Gain on sale of real estate	304,017	24,739	279,278	—
Net income from discontinued operations	—	2,358	(2,358)	—
Net income	285,307	27,841	257,466	—

Net income increased to \$285,307,000, or by \$257,466,000, for the six months ended June 30, 2017, compared to \$27,841,000 for the six months ended June 30, 2016. The increase is primarily attributable to an increase in the gain on sale of real estate of \$279,278,000, as well as an increase of \$4,971,000 in net operating income of our operating segments in continuing operations and a decrease of \$4,546,000 in depreciation and amortization expense, partially offset by \$13,100,000 of impairment of real estate, an increase of \$11,361,000 in transaction costs, an increase of \$5,271,000 in interest expense and a decrease of \$2,358,000 in income from discontinued operations.

Funds from Operations (“FFO”)

We believe that FFO is a widely recognized and appropriate measure of the performance of a REIT and that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO represents net income (loss) available to common stockholders, computed in accordance with GAAP, excluding gains (or losses) from sales of real estate, impairment of real estate, and real estate depreciation and amortization. We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (“NAREIT”).

Like any metric, FFO should not be used as the only measure of our performance because it excludes depreciation and amortization and captures neither the changes in the value of our real estate properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our operating results. Other REITs may not calculate FFO in accordance with the standards established by the NAREIT; accordingly, our FFO may not be comparable to those other REITs’ FFO. Therefore, FFO should be considered only as a supplement to net income as a measure of our performance and should not be used as a supplement to or substitute measure for cash flow from operating activities computed in accordance with GAAP. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends.

The following table sets forth a reconciliation of net income available to common stockholders to FFO available to common stockholders:

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Net income available to common stockholders	\$ 285,190	\$ 27,829
Depreciation and amortization	31,992	36,538
Impairment of real estate	13,100	—
Gain on sale of depreciable assets	(304,017)	(24,739)
FFO available to common stockholders	\$ 26,265	\$ 39,628

FFO available to common stockholders was \$26,265,000 for the six months ended June 30, 2017, a decrease of \$13,363,000 compared to \$39,628,000 for the six months ended June 30, 2016. The decrease in FFO was primarily attributable to an increase of \$11,361,000 in transaction costs, an increase of \$5,271,000 in interest expense, and a decrease of \$2,358,000 in income from discontinued operations, partially offset by an increase of \$4,971,000 in net operating income of our operating segments in continuing operations.

Summary Segment Results

CIM Commercial operates in four segments: office, hotel, multifamily properties and lending. Set forth and described below are summary segment results for our four segments included in continuing operations.

	Six Months Ended June 30,		Change	
	2017	2016	\$	%
(dollars in thousands)				
Revenues:				
Office	\$ 93,007	\$ 91,819	\$ 1,188	1.3%
Hotel	21,122	29,779	(8,657)	(29.1)%
Multifamily	9,717	10,230	(513)	(5.0)%
Lending	4,402	5,149	(747)	(14.5)%
Expenses:				
Office	32,239	38,862	(6,623)	(17.0)%
Hotel	13,064	19,779	(6,715)	(34.0)%
Multifamily	5,969	6,129	(160)	(2.6)%
Lending	2,392	2,594	(202)	(7.8)%

Revenues

Office Revenue: Office revenue includes rental revenue from office properties, expense reimbursements and lease termination income. Office revenue increased to \$93,007,000, or by 1.3%, for the six months ended June 30, 2017 compared to \$91,819,000 for the six months ended June 30, 2016. The increase is primarily due to increases at our North Carolina property sold in June 2017, and at certain of our California and Washington D.C. properties due to increases in both occupancy and rental rates, partially offset by a decrease due to the sale of an office building in San Francisco, California in March 2017, and a decrease at one of our Washington D.C. properties due to expiration of a lease with a large tenant in January 2016. Additionally, the sale of an office building in San Francisco, California in March 2017, an office building in Charlotte, North Carolina in June 2017, and an office building and parking garage in Sacramento, California in June 2017 will, and the sale of an office property in Los Angeles, California, which is held for sale at June 30, 2017, and the sale of any additional office properties during 2017, are expected to, cause office revenue to decline materially for the remainder of 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as the timing and number of dispositions that occur in 2017.

Hotel Revenue: Hotel revenue decreased to \$21,122,000, or by 29.1%, for the six months ended June 30, 2017 compared to \$29,779,000 for the six months ended June 30, 2016. The decrease is primarily due to the sale of two hotel properties in February and July 2016, partially offset by revenue increases at the remaining hotel property due to RevPAR growth resulting from increases in rates and occupancy.

Multifamily Revenue: Multifamily revenue decreased to \$9,717,000, or by 5.0%, for the six months ended June 30, 2017 compared to \$10,230,000 for the six months ended June 30, 2016. The decrease is primarily due to the sale of our three properties located in Dallas, Texas in May and June 2017, and a decrease at our Houston, Texas property as a result of decreased annualized rents. The sale of our three multifamily properties in Dallas, Texas, will, and the sale of our remaining two multifamily properties in New York, New York and Houston, Texas, which are held for sale at June 30, 2017, are expected to, cause multifamily revenue to decline materially for the remainder of 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as the timing and number of dispositions that occur in 2017.

Lending Revenue: Lending revenue represents revenue from our lending subsidiaries included in continuing operations, including interest income on loans and other loan related fee income. Lending revenue decreased to \$4,402,000, or by 14.5%, for the six months ended June 30, 2017 compared to \$5,149,000 for the six months ended June 30, 2016. The decrease is primarily due to a decrease in premium income from the sale of the guaranteed portion of our SBA 7(a) loans, and lower revenue as a result of recognition of accretion for discounts related to decreased prepayments on our loans, partially offset by a break-up fee related to a potential loan that was received during the six months ended June 30, 2017.

Expenses

Office Expenses: Office expenses decreased to \$32,239,000, or by 17.0%, for the six months ended June 30, 2017 compared to \$38,862,000 for the six months ended June 30, 2016. The decrease is primarily due to reduced real estate taxes for the six months ended June 30, 2017 due to the transfer of the right to collect supplemental real estate tax reimbursements related to an office building in San Francisco, California in March 2017, the sale of the same office building in San Francisco, California in March 2017, a decrease in real estate taxes for the six months ended June 30, 2017 at our office building in Charlotte, North Carolina, and at certain Washington D.C. properties, partially offset by an increase in real estate taxes at one of our Washington D.C. properties, as the prior comparable period included a tax refund that reduced expenses. The sale of an office building in San Francisco, California in March 2017, an office building in Charlotte, North Carolina in June 2017, and an office building and parking garage in Sacramento, California in June 2017 will, and the sale of an office property in Los Angeles, California, which is held for sale at June 30, 2017, and the sale of any additional office properties during 2017, are expected to, cause office expenses to decline materially for the remainder of 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as the timing and number of dispositions that occur in 2017.

Hotel Expenses: Hotel expenses decreased to \$13,064,000, or by 34.0%, for the six months ended June 30, 2017 compared to \$19,779,000 for the six months ended June 30, 2016. The decrease is primarily due to the sale of two hotel properties in February and July 2016.

Multifamily Expenses: Multifamily expenses decreased to \$5,969,000, or by 2.6%, for the six months ended June 30, 2017 compared to \$6,129,000 for the six months ended June 30, 2016. The decrease is primarily due to a decrease in real estate taxes at our properties in Houston, Texas and New York, New York. The sale of our three multifamily properties in Dallas, Texas, will, and the sale of our remaining two multifamily properties in New York, New York and Houston, Texas, which are held for sale at June 30, 2017, are expected to, cause multifamily expenses to decline materially for the remainder of 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as the timing and number of dispositions that occur in 2017.

Lending Expenses: Lending expenses represent expenses from our lending subsidiaries included in continuing operations, including general and administrative expenses and fees to related party, related to the operation of the lending business. Lending expenses decreased to \$2,392,000, or by 7.8%, for the six months ended June 30, 2017 compared to \$2,594,000 for the six months ended June 30, 2016, primarily due to a decrease in interest expense as a result of secured borrowing prepayments and amortization of related deferred premiums, a decrease in fees to related party and reductions in general and administrative costs associated with assets acquired in liquidation and professional fees, partially offset by the recognition of a provision for loan losses during the six months ended June 30, 2017 compared to a recovery of loan losses during the six months ended June 30, 2016.

Asset Management and Other Fees to Related Parties: Asset management fees totaled \$12,544,000 for the six months ended June 30, 2017 compared to \$12,716,000 for the six months ended June 30, 2016. Asset management fees are calculated based on a percentage of the daily average adjusted fair value of CIM Urban's investments, which are appraised in the fourth quarter of each year. The lower fees reflect a decrease in the adjusted fair value of CIM Urban's investments due to the sale of a hotel property in February 2016, the sale of a hotel property in July 2016, the sale of an office property in March 2017, the sale of two multifamily properties in May 2017, and the sale of two office properties, a parking garage, and one multifamily property in June 2017, offset by net increases in the fair value of CIM Urban's real estate investments based on the December 31, 2016 appraised values as well as incremental capital expenditures incurred in the first six months of 2017. CIM Commercial also pays a Base Service Fee to the Manager, a related party, which totaled \$530,000 for the six months ended June 30, 2017 compared to \$525,000 for the six months ended June 30, 2016. In addition, the Manager may receive compensation and/or reimbursement for performing certain services for CIM Commercial and its subsidiaries that are not covered under the Base Service Fee. For the six months ended June 30, 2017 and 2016, we expensed \$1,622,000 and

\$1,726,000 for such services, respectively. For the six months ended June 30, 2017 and 2016, we also expensed \$239,000 and \$226,000, respectively, related to corporate services subject to reimbursement by us under the CIM SBA Staffing and Reimbursement Agreement. Asset management fees are expected to decline materially for the remainder of 2017 as a result of our completed sales, the disposition of assets held for sale at June 30, 2017, and any additional property sales, that may occur during the remainder of 2017.

Interest Expense: Interest expense, which is not allocated to our operating segments, was \$19,199,000 for the six months ended June 30, 2017, an increase of \$5,271,000 compared to \$13,928,000 in the corresponding period in 2016. The increase is primarily due to interest expense on our \$392,000,000 mortgage loans entered into in June 2016, partially offset by a decrease in interest expense resulting from the sale of an office building in San Francisco, California in March 2017, and a decrease in interest expense, including the impact of interest rate swaps, and loan fee amortization expense under the unsecured credit and term loan facilities, mainly due to lower average outstanding loan balances under the unsecured credit facility. Our interest expense is expected to decrease for the remainder of 2017 due to the payoff of a \$25,331,000 mortgage in March 2017 in connection with the sale of an office property in San Francisco, California and payoff of mortgages with a combined balance of \$38,781,000 in May and June 2017, in connection with the sale of our three multifamily properties in Dallas, Texas. Additionally, we expect to have interest savings relating to the expected payoff of \$50,568,000 in mortgage loans associated with assets held for sale at June 30, 2017, and any other such loans that secure properties that we may sell in 2017. However, the magnitude of any such decrease cannot be predicted as it will depend on a number of factors such as usage of our revolving credit facility, the timing of the dispositions of assets held for sale, and whether any other sale of encumbered properties occurs.

General and Administrative Expenses: General and administrative expenses, which have not been allocated to our operating segments, were \$1,586,000 for the six months ended June 30, 2017, a decrease of \$696,000 compared to \$2,282,000 in the corresponding period in 2016. The decrease is primarily due to a decrease in legal, other consulting, professional fees, and shareholder services expenses.

Transaction Costs: Transaction costs totaling \$11,628,000 for the six months ended June 30, 2017 represent a \$11,361,000 increase from \$267,000 for the six months ended June 30, 2016, mainly due to an \$11,592,000 expense in connection with a suit filed by the City and County of San Francisco claiming past due real property transfer tax relating to a transaction in a prior year (Note 16). The Company believes that it has defenses to, and intends to continue to vigorously contest, the asserted tax obligations.

Depreciation and Amortization Expense: Depreciation and amortization expense was \$31,992,000 for the six months ended June 30, 2017, a decrease of \$4,546,000 compared to \$36,538,000 for the six months ended June 30, 2016. The decrease is primarily due to the sale of an office property in San Francisco, California held for sale starting in mid-February 2017, that was sold in March 2017, the sale of a hotel property in July 2016, the sale of three multifamily properties in Dallas, Texas, which were held for sale in May 2017 and sold in May and June 2017, the sale of two office properties and a parking garage in Sacramento, California and Charlotte, North Carolina, which were held for sale in April 2017 and sold in June 2017, and an office property in Los Angeles, California, which was held for sale in May 2017, partially offset by an increase in the depreciation expense associated with additional capital expenditures. Depreciation expense is expected to decline materially for the remainder of 2017 as a result of our completed sales, the disposition of assets held for sale at June 30, 2017, and any additional property sales that may occur during 2017.

Impairment of Real Estate: Impairment of real estate was \$13,100,000 for the six months ended June 30, 2017 and \$0 for the six months ended June 30, 2016. In August 2017, we negotiated an agreement with an unrelated third party for the sale of an office property. We determined the book value of this property exceeded its estimated fair value less costs to sell, and as such, an impairment charge of \$13,100,000 was recognized as of June 30, 2017. Our determination of fair value was based on negotiations with the third party buyer.

Provision for Income Taxes: Provision for income taxes was \$854,000 for the six months ended June 30, 2017, an increase of \$193,000 compared to \$661,000 for the six months ended June 30, 2016, due to an increase in taxable income at our taxable REIT subsidiaries.

Discontinued Operations

Net Income from Discontinued Operations: Net income from discontinued operations represents revenues and expenses from the part of our lending segment that is included in discontinued operations, including interest income on loans and other loan related fee income, offset by expenses, which include general and administrative expenses, fees to related party, and direct interest expense. Net income from discontinued operations was \$0 for the six months ended June 30, 2017, a decrease of \$2,358,000 compared to \$2,358,000 for the six months ended June 30, 2016. The decrease is due to the sale of our commercial real estate lending subsidiary in December 2016.

Liquidity and Capital Resources

Sources and Uses of Funds

In September 2014, CIM Commercial entered into an \$850,000,000 unsecured credit facility with a bank syndicate consisting of a \$450,000,000 revolver, a \$325,000,000 term loan and a \$75,000,000 delayed-draw term loan. CIM Commercial is subject to certain financial maintenance covenants and a minimum property ownership condition. Outstanding advances under the revolver bear interest at (i) the base rate plus 0.20% to 1.00% or (ii) LIBOR plus 1.20% to 2.00%, depending on the maximum consolidated leverage ratio. Outstanding advances under the term loans bore interest at (i) the base rate plus 0.15% to 0.95% or (ii) LIBOR plus 1.15% to 1.95%, depending on the maximum consolidated leverage ratio. The revolver is also subject to an unused commitment fee of 0.15% or 0.25% depending on the amount of aggregate unused commitments. The delayed-draw term loan was also subject to an unused line fee of 0.25%. Proceeds from the unsecured credit facility were used to repay mortgage loans and outstanding balances under our prior unsecured credit facilities, for acquisitions, short-term funding of a Common Stock tender offer in June 2016, short-term funding of a private repurchase of Common Stock in June 2017, and general corporate purposes. In June 2016, we entered into six mortgage loan agreements with an aggregate principal amount of \$392,000,000. A portion of the net proceeds from the loans was used to repay outstanding balances under our unsecured credit facility and the remaining portion was used to repurchase shares of our Common Stock in a private repurchase in September 2016. The June 2017 borrowing used to fund the private share repurchase was repaid using proceeds from subsequent asset sales. The credit facility was set to mature in September 2016 and prior to maturity, we exercised the first of two one-year extension options through September 2017 and we permanently reduced the revolving credit commitment under the credit facility to \$200,000,000. In August 2017, we exercised the second of two one year extension options through September 2018 and, in connection with such exercise, we will pay an extension fee of \$300,000. At August 4, 2017, June 30, 2017 and December 31, 2016, \$0 was outstanding under the credit facility. The unused capacity on the unsecured credit facility based on covenant restrictions at August 4, 2017, June 30, 2017 and December 31, 2016, was approximately \$154,000,000, \$89,000,000, and \$200,000,000, respectively.

In May 2015, CIM Commercial entered into an unsecured term loan facility with a bank syndicate pursuant to which CIM Commercial can borrow up to a maximum of \$385,000,000. The term loan facility ranks pari passu with CIM Commercial's unsecured credit facility described above; covenants under the term loan facility are substantially the same as those in the unsecured credit facility. Outstanding advances under the term loan facility bear interest at (i) the base rate plus 0.60% to 1.25% or (ii) LIBOR plus 1.60% to 2.25%, depending on the maximum consolidated leverage ratio. The unused portion of the term loan facility was also subject to an unused fee of 0.20%. With some exceptions, any prepayment of the term loan facility prior to May 9, 2017 was subject to a prepayment fee up to 2.00% of the outstanding principal amount. The term loan facility matures in May 2022. On November 2, 2015, \$385,000,000 was drawn under the term loan facility. At August 4, 2017, \$320,000,000 was outstanding under the unsecured term loan facility and, at June 30, 2017 and December 31, 2016, \$385,000,000 was outstanding under the term loan facility. Proceeds from the term loan facility were used to repay balances outstanding under our unsecured credit facility. At June 30, 2017 and December 31, 2016, the variable interest rate on this unsecured term loan facility was 2.65% and 2.22%, respectively. The interest rate of the loan has been effectively converted to a fixed rate of 3.16% until May 8, 2020 through interest rate swaps (Note 13). On August 3, 2017, we repaid \$65,000,000 of outstanding borrowings on our unsecured term loan facility. In connection with such pay down, we terminated three interest rate swaps with an aggregate notional value of \$65,000,000 (Note 13). Costs incurred to terminate such swaps totaled \$38,000, which will be reflected in earnings.

At June 30, 2017 and December 31, 2016, we were in compliance with all of our respective financial covenants under the unsecured credit and term loan facilities.

On March 28, 2017, in connection with the sale of an office property in San Francisco, California, we paid off a mortgage with an outstanding balance of \$25,331,000 using proceeds from the sale. Additionally, we paid a prepayment penalty of \$1,508,000 in connection with the prepayment of this mortgage.

On May 30, 2017, in connection with the sale of two multifamily properties, both located in Dallas, Texas, we paid off two mortgages with an aggregate outstanding balance of \$15,448,000 using proceeds from the sales. Additionally, we paid aggregate prepayment penalties of \$1,901,000 in connection with the prepayment of these mortgages.

On June 23, 2017, in connection with the sale of a multifamily property in Dallas, Texas, we paid off a mortgage with an outstanding balance of \$23,333,000 using proceeds from the sale. Additionally, we paid a prepayment penalty of \$2,812,000 in connection with the prepayment of this mortgage.

We have an effective registration statement with the SEC with respect to the offer and sale of up to \$900,000,000 of Units, with each Unit consisting of (i) one share of Series A Preferred Stock, par value \$0.001 per share, with an initial Stated Value of \$25.00 per share and (ii) one Warrant to purchase 0.25 of a share of Common Stock. The registration statement allows us to sell up to a maximum of 36,000,000 Units. Holders of our Series A Preferred Stock are entitled to receive, if, as and when declared by the Board of Directors, cumulative cash dividends on each share of Series A Preferred Stock at an annual rate of 5.5% of the Stated Value. The exercise price of each Warrant will be at a 15.0% premium to the per share estimated NAV of our Common Stock (as most recently published by us at the time of each issuance). As of June 30, 2017, we had issued 308,775 Units and collected net proceeds of \$7,082,000 after commissions, fees and allocated costs. As of June 30, 2017, no shares of Series A Preferred Stock have been redeemed.

We will likely finance our future activities through one or more of the following methods: (i) offerings of shares of Common Stock, preferred stock, senior unsecured securities, and/or other equity and debt securities; (ii) credit facilities and term loans; (iii) the addition of senior recourse or non-recourse debt using target acquisitions as well as existing investments as collateral; (iv) the sale of existing investments; and/or (v) cash flows from operations. We expect to employ leverage levels that are comparable to those of other commercial REITs engaged in business strategies similar to our own.

Our long-term liquidity needs will consist primarily of funds necessary for acquisitions of investments, development or repositioning of properties, capital expenditures, refinancing of indebtedness, repurchases of Common Stock (whether through one or more tender offers, share repurchases or otherwise), dividends on the Series A Preferred Stock or any other preferred stock we may issue and redemption of Series A Preferred Stock (if we choose to pay the redemption price in cash instead of in shares of our Common Stock) and dividend distributions on our Common Stock. We may not have sufficient funds on hand or may not be able to obtain additional financing to cover all of these long-term cash requirements although, it should be noted that we do not currently have any significant property development or repositioning projects planned. The nature of our business, and the requirements imposed by REIT rules that we distribute a substantial majority of our REIT taxable income on an annual basis in the form of dividends, may cause us to have substantial liquidity needs over the long-term. We will seek to satisfy our long term liquidity needs through one or more of the methods described in the immediately preceding paragraph. These sources of funding may not be available on attractive terms or at all. If we cannot obtain additional funding for our long-term liquidity needs, our investments may generate lower cash flows or decline in value, or both, which may cause us to sell assets at a time when we would not otherwise do so and could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Available Borrowings, Cash Balances and Capital Resources

We have typically financed our capital needs through investor equity commitments, long-term secured mortgages, term loans, and unsecured short-term credit facilities. As of June 30, 2017 and December 31, 2016, we had total indebtedness, exclusive of debt included in liabilities associated with assets held for sale, of \$846,833,000 and \$967,886,000, respectively. As of June 30, 2017 and December 31, 2016, \$385,000,000 of borrowings under credit and term loan facilities were included in total indebtedness. Based on covenant restrictions as of June 30, 2017 and December 31, 2016, these facilities had total unused capacity of approximately \$89,000,000 and \$200,000,000, respectively. As of August 4, 2017, \$320,000,000 (\$0 under the revolver and \$320,000,000 under the term loan) was outstanding under the credit and term loan facilities, and, based on covenant restrictions, approximately \$154,000,000 was available for future borrowings.

Cash Flow Analysis

Our cash and cash equivalents, inclusive of cash associated with assets held for sale, totaled \$131,910,000 and \$144,449,000 at June 30, 2017 and December 31, 2016, respectively. Our cash flows from operating activities are primarily dependent upon the real estate assets owned, occupancy level of our real estate assets, the rental rates achieved through our leases, and the collectability of rent and recoveries from our tenants. Our cash flows from operating activities are also impacted by fluctuations in operating expenses and other general and administrative costs. Net cash provided by operating activities totaled \$21,760,000 for the six months ended June 30, 2017 compared to \$33,558,000 for the six months ended June 30, 2016. The decrease was mainly due to a decrease of \$18,355,000 in net income adjusted for gain on sale of real estate, depreciation and amortization expense, impairment of real estate, and transfer of the right to collect supplemental real estate tax reimbursements at an office property in San Francisco, California that we sold in March 2017, a decrease of \$4,842,000 in proceeds from the sale of guaranteed loans, and a decrease of \$1,461,000 in other operating activity, partially offset by an increase of \$5,623,000 resulting from a lower level of working capital used compared to the prior period, a \$4,199,000 decrease in loans funded, and a \$3,052,000 increase in principal collected on loans subject to secured borrowings.

Our cash flows from investing activities are primarily related to property investments and sales, expenditures for development and redevelopment projects, capital expenditures and cash flows associated with loans originated at our lending segment. Net cash provided by investing activities for the six months ended June 30, 2017 was \$637,968,000 compared to net cash used in investing activities of \$52,960,000 in the corresponding period in 2016. The increase was primarily due to an increase of \$600,104,000 in cash generated from the sale of real estate during the six months ended June 30, 2017 compared to the six months ended June 30, 2016, an increase in the change in restricted cash of \$82,359,000 primarily related to the anticipated Section 1031 Exchange in connection with the sale of a hotel property in February 2016, and reserves funded during the six months ended June 30, 2017 in connection with our six mortgage loans entered into in June 2016, a decrease in loans funded of \$21,902,000, and a decrease in additions to investments in real estate of \$8,206,000, partially offset by a decrease of \$20,668,000 in principal collected on loans.

Our cash flows from financing activities are generally impacted by borrowings and capital activities. Net cash used in financing activities for the six months ended June 30, 2017 was \$672,267,000 compared to \$51,917,000 in the corresponding period in 2016. The primary reason for the increase in usage of proceeds from financing activities was our repurchase of \$576,000,000 of Common Stock during the six months ended June 30, 2017 compared to \$210,060,000 during the six months ended June 30, 2016. We had net debt payments, inclusive of secured borrowings of the lending business, of \$70,504,000 for the six months ended June 30, 2017, mainly due to the prepayment of mortgages in connection with the sale of real estate, compared to net borrowings of \$200,161,000 for the six months ended June 30, 2016. Dividends of \$30,532,000 for the six months ended June 30, 2017 were sourced from net cash provided by operating activities of \$21,760,000 and the remainder from our cash on hand at the beginning of the period of \$144,449,000, while dividends of \$40,544,000 for the six months ended June 30, 2016 were sourced from net cash provided by operating activities of \$33,558,000 and the remainder from our cash on hand at the beginning of the period of \$139,101,000. Proceeds from the issuance of our Units consisting of Series A Preferred Stock and associated Warrants were \$5,672,000, while cash used for the payment of deferred stock offering costs totaled \$862,000 for the six months ended June 30, 2017. Deferred loan costs of \$1,076,000 were paid during the six months ended June 30, 2016 primarily related to the \$392,000,000 of mortgage loans we entered into in June 2016.

Contractual Obligations, Commitments and Contingencies

During the six months ended June 30, 2017, there were no material changes outside the ordinary course of business in the information regarding specified contractual obligations contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

Off-Balance Sheet Arrangements

At June 30, 2017, we did not have any off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

Our recently issued accounting pronouncements are described in Note 2 to the consolidated financial statements included in this Form 10-Q.

Dividends

Holders of Series A Preferred Stock are entitled to receive, if, as and when authorized by our Board of Directors, and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Preferred Stock at an annual rate of 5.5% of the Stated Value (i.e., the equivalent of \$0.34375 per share per quarter). Dividends on each share of Series A Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance. Dividends will be payable on the 15th day of the month, or if such day is not a business day, on the first business day thereafter, following the quarter for which the dividend was declared. We expect to pay dividends on our Series A Preferred Stock quarterly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland General Corporation Law (“MGCL”) or other factors make it imprudent to do so. The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time. Cash dividends declared on our Series A Preferred Stock for the six months ended June 30, 2017 consist of the following:

<u>Declaration Date</u>	<u>Payment Date</u>	<u>Number of Shares</u>	<u>Aggregate Dividends Declared (in thousands)</u>
June 12, 2017	July 17, 2017	308,775	\$ 72
March 8, 2017	April 17, 2017	144,698	\$ 31

Holders of our Common Stock are entitled to receive dividends, if, as and when authorized by the Board of Directors and declared by us. In determining our dividend policy, the Board of Directors considers many factors including the amount of cash resources available for dividend distributions, capital spending plans, cash flow, financial position, applicable requirements of the MGCL, any applicable contractual restrictions, and future growth in net asset value and cash flow per share prospects. Consequently, the dividend rate on a quarterly basis does not necessarily correlate directly to any individual factor. Dividends per share of Common Stock declared during the six months ended June 30, 2017 consist of the following:

<u>Declaration Date</u>	<u>Payment Date</u>	<u>Type (1)</u>	<u>Dividend Per Common Share</u>
June 12, 2017	June 27, 2017	Special Cash	\$ 1.98000
June 12, 2017	June 27, 2017	Regular Quarterly	\$ 0.12500
April 5, 2017	April 24, 2017	Special Cash	\$ 0.28000
March 8, 2017	March 27, 2017	Regular Quarterly	\$ 0.21875

(1) Urban II, an affiliate of CIM REIT and CIM Urban, waived its right to receive the April 24, 2017 and June 27, 2017 special cash dividends.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

The fair value of our mortgages payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis is generally used to estimate the fair value of our mortgages payable, using rates ranging from 4.11% to 4.26% at June 30, 2017 and 4.60% to 4.72% at December 31, 2016. Mortgages payable, exclusive of debt included in liabilities associated with assets held for sale, with book values of \$414,672,000 and \$530,793,000 as of June 30, 2017 and December 31, 2016, respectively, have fair values of approximately \$417,912,000 and \$516,892,000, respectively.

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We are exposed to market risk in the form of changes in interest rates and the potential impact such changes may have on the cash flows from our floating rate debt or the fair values of our fixed rate debt. At June 30, 2017 and December 31, 2016 (excluding premiums, discounts, and debt issuance costs, including debt included in liabilities associated with assets held for sale, and before the impact related to the interest rate swaps), \$466,868,000 (or 51.8%) and \$532,437,000 (or 54.8%) of our debt, respectively, was fixed rate mortgage loans, and \$435,034,000 (or 48.2%) and \$439,969,000 (or 45.2%), respectively, was floating rate borrowings. Based on the level of floating rate debt outstanding at June 30, 2017 and December 31, 2016, and before the impact of the interest rate swaps, a 12.5 basis point change in LIBOR would result in an annual impact to our earnings of approximately \$544,000 and \$550,000, respectively. We calculate interest rate sensitivity by multiplying the amount of floating rate debt by the respective change in rate. The sensitivity analysis does not take into consideration possible changes in the balances or fair value of our floating rate debt or the impact of interest rate swaps.

In order to manage financing costs and interest rate exposure related to our \$385,000,000 unsecured term loan facility, on August 13, 2015, we entered into interest rate swap agreements with multiple counterparties. These swap agreements became effective on November 2, 2015. These interest rate swaps effectively convert the interest rate on the term loan facility into a fixed weighted average rate of 1.563% plus the credit spread, which was 1.60% at June 30, 2017 and December 31, 2016, or an all-in rate of 3.16% until May 8, 2020. On August 3, 2017, we repaid \$65,000,000 of outstanding borrowings on our unsecured term loan facility. In connection with such pay down, we terminated three interest rate swaps with an aggregate notional value of \$65,000,000. Our use of these derivative instruments to hedge exposure to changes in interest rates exposes us to credit risk from the potential inability of our counterparties to perform under the terms of the agreements. We attempt to minimize this credit risk by contracting with what we believe to be high-quality financial counterparties. For a description of our derivative contracts, see Note 13 to our consolidated financial statements included in this Report.

Item 4.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, regarding the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, as of June 30, 2017, our Principal Executive Officer and Principal Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and includes controls and procedures designed to ensure the information required to be disclosed by the Company in such reports is accumulated and

communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Other Information

Item 1. Legal Proceedings

We are not currently involved in any material pending or threatened legal proceedings nor, to our knowledge, is any material legal proceeding currently threatened against us, other than routine litigation arising in the ordinary course of business. In the normal course of business we are periodically party to certain legal actions and proceedings involving matters that are generally incidental to our business. While the outcome of these legal actions and proceedings cannot be predicted with certainty, in management's opinion, the resolution of these legal proceedings and actions will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

On June 12, 2017, we repurchased, in a privately negotiated transaction, canceled and retired 26,181,818 shares of Common Stock from Urban II.

The following table summarizes the purchases of our Common Stock during the three months ended June 30, 2017.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
April 1, 2017 to April 30, 2017	—	\$ —	—	\$ —
May 1, 2017 to May 31, 2017	—	—	—	—
June 1, 2017 to June 30, 2017	26,181,818	22.00	—	—
Total	26,181,818	\$ 22.00	—	—

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description
*31.1	Section 302 Officer Certification—Chief Executive Officer
*31.2	Section 302 Officer Certification—Chief Financial Officer
*32.1	Section 906 Officer Certification—Chief Executive Officer
*32.2	Section 906 Officer Certification—Chief Financial Officer
*101	Interactive data files pursuant to Rule 405 of Regulation S-T

* Filed herewith.

SIGNATURES

Pursuant to the requirements 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.

CIM COMMERCIAL TRUST CORPORATION

Dated: August 9, 2017

By: /s/ CHARLES E. GARNER II
Charles E. Garner II
Chief Executive Officer

Dated: August 9, 2017

By: /s/ DAVID THOMPSON
David Thompson
Chief Financial Officer