

FORM 10 - Q

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

(Mark One)

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

For the quarterly period ended September 30, 1998

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 0-22148

PMC COMMERCIAL TRUST

(Exact name of registrant as specified in its charter)

TEXAS

75-6446078

(State or other jurisdiction
of incorporation or organization)

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

17290 Preston Road, 3rd Floor, Dallas, TX 75252

(972) 349-3200

(Address of principal executive offices)

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

YES X NO
 --- ---

As of November 1, 1998, Registrant had outstanding 6,515,780 Common Shares of
Beneficial Interest, par value \$.01 per share.

PMC COMMERCIAL TRUST AND SUBSIDIARIES

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PART I
Financial Information

ITEM 1.
Financial Statements

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 1998	December 31, 1997
	----- (Unaudited)	-----
ASSETS		
INVESTMENTS:		
Loans receivable, net	\$ 125,288	\$ 109,132
Cash equivalents	107	32
Restricted investments	7,312	5,766
	-----	-----
TOTAL INVESTMENTS	132,707	114,930
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	62,242	--
	-----	-----
OTHER ASSETS:		
Cash	18	4
Interest receivable	787	654
Deferred borrowing costs, net	744	280
Other assets, net (note 11)	849	9
	-----	-----
TOTAL OTHER ASSETS	2,398	947
	-----	-----
TOTAL ASSETS	\$ 197,347	\$ 115,877
	=====	=====
LIABILITIES AND BENEFICIARIES' EQUITY		
LIABILITIES:		
Notes payable	\$ 95,216	\$ 18,721
Borrower advances	2,215	1,431
Dividends payable	2,931	2,749
Unearned commitment fees	648	948
Due to affiliates	608	344
Interest payable	466	182
Other liabilities	1,766	260
	-----	-----
TOTAL LIABILITIES	103,850	24,635
	-----	-----
Commitments and contingencies		
BENEFICIARIES' EQUITY:		
Common shares of beneficial interest; authorized 100,000,000 shares of \$0.01 par value; 6,512,055 and 6,392,518 shares issued and outstanding at September 30, 1998 and December 31, 1997, respectively	65	64
Additional paid-in capital	93,989	91,687
Cumulative net income	34,255	25,677
Cumulative dividends	(34,812)	(26,186)
	-----	-----
Total beneficiaries' equity	93,497	91,242
	-----	-----
TOTAL LIABILITIES AND BENEFICIARIES' EQUITY	\$ 197,347	\$ 115,877
	=====	=====
Net asset value per share	\$ 14.36	\$ 14.27
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Nine Months Ended September 30,	
	1998	1997
	(Unaudited)	
Revenues:		
Interest income - loans	\$10,021	\$ 9,126
Lease income	1,678	--
Interest and dividends - other investments	224	603
Other income	1,206	593
	-----	-----
TOTAL REVENUES	13,129	10,322
	-----	-----
EXPENSES:		
Interest	2,555	1,295
Advisory and servicing fees to affiliate, net	1,276	1,073
General and administrative	150	114
Depreciation and amortization	488	--
Provision for loan losses	30	50
Legal and accounting fees	52	38
	-----	-----
TOTAL EXPENSES	4,551	2,570
	-----	-----
NET INCOME	\$ 8,578	\$ 7,752
	=====	=====
Weighted average shares outstanding	6,492	6,204
	=====	=====
Basic and diluted earnings per share	\$ 1.32	\$ 1.25
	=====	=====

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CONSOLIDATED FINANCIAL STATEMENTS.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three Months Ended September 30,	
	1998	1997
	(Unaudited)	
REVENUES:		
Interest income - loans	\$3,578	\$3,126
Lease income	1,661	--
Interest and dividends - other investments	85	144
Other income	628	155
	-----	-----
TOTAL REVENUES	5,952	3,425
	-----	-----
EXPENSES:		
Interest	1,656	397
Advisory and servicing fees to affiliate, net	526	373
General and administrative	49	37
Depreciation and amortization	488	--
Provision for loan losses	10	10
Legal and accounting fees	8	--
	-----	-----
TOTAL EXPENSES	2,737	817
	-----	-----
NET INCOME	\$3,215	\$2,608
	=====	=====
Weighted average shares outstanding	6,512	6,275
	=====	=====
Basic and diluted earnings per share	\$ 0.49	\$ 0.42
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	1998	1997
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 8,578	\$ 7,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	488	--
Accretion of discount and fees	(488)	(651)
Amortization of organization and borrowing costs	166	40
Provision for loan losses	30	50
Commitment fees collected, net	366	495
Construction monitoring fees collected, net	34	53
Changes in operating assets and liabilities:		
Accrued interest receivable	(133)	(76)
Other assets	(846)	(44)
Interest payable	284	(37)
Borrower advances	784	(569)
Due to affiliates	263	(285)
Other liabilities	1,533	23
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,059	6,751
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans funded	(34,125)	(35,878)
Principal collected	17,700	18,466
Purchase of property, plant and equipment	(62,730)	--
Investment in restricted investments, net	(1,546)	(1,232)
NET CASH USED IN INVESTING ACTIVITIES	(80,701)	(18,644)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common shares	2,072	3,386
Proceeds from issuance of notes payable	117,735	--
Payment of dividends	(8,212)	(7,165)
Payment of principal on notes payable	(41,240)	(6,554)
Payment of issuance costs	(624)	(16)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	69,731	(10,349)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	89	(22,242)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	36	25,984
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 125	\$ 3,742
	=====	=====
SUPPLEMENTAL DISCLOSURES:		
Dividends reinvested	\$ 231	\$ 352
	=====	=====
Dividends declared, not paid	\$ 2,931	\$ 2,647
	=====	=====
Interest paid	\$ 2,679	\$ 1,286
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying consolidated balance sheet of PMC Commercial Trust ("PMC Commercial") and its subsidiaries (collectively, with PMC Commercial, the "Company") as of September 30, 1998 and the consolidated statements of income for the three and nine months ended September 30, 1998 and 1997 and the consolidated statements of cash flows for the nine months ended September 30, 1998 and 1997 have not been audited by independent accountants. In the opinion of the Company's management, the financial statements reflect all adjustments necessary to present fairly the Company's financial position at September 30, 1998, and the results of operations for the three and nine months ended September 30, 1998 and 1997 and the cash flows for the nine months ended September 30, 1998 and 1997. These adjustments are of a normal recurring nature.

Certain notes and other information have been omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 1997 Annual Report on Form 10-K.

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

The results for the three and nine months ended September 30, 1998 are not necessarily indicative of future financial results.

NOTE 2. RECLASSIFICATION

Certain prior period amounts have been reclassified to conform to current year presentation.

NOTE 3. BASIS FOR CONSOLIDATION

During 1996, PMC Commercial Receivable Limited Partnership, a Delaware limited partnership ("PCR" or the "1996 Partnership"), and PMC Commercial Corp., a Delaware corporation, were formed. PMC Commercial Corp. is the general partner for PCR. During 1998, PMC Commercial Trust, Ltd. 1998-1 ("PMCT98" or the "1998 Partnership"), and PMCT Corp. 1998-1, a Delaware corporation were formed. PMCT Corp. 1998-1 is the general partner for PMC Commercial Trust, Ltd. 1998-1. The consolidated financial statements include the accounts of PMC Commercial, PMC Commercial Corp., PCR, PMCT98 and PMCT Corp. 1998-1.

PMC Commercial directly or indirectly owns 100% of PMC Commercial Corp., the 1996 Partnership, PMCT Corp. 1998-1, and the 1998 Partnership (See Note 6).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets and estimated residual values. The buildings and improvements are being depreciated utilizing a 35 year useful life and the furniture, fixtures and equipment are being depreciated over a seven year useful life. Maintenance and repairs are the responsibility of the lessee and are charged to the lessee's operations as incurred; major replacements, renewals and improvements are capitalized.

The Company periodically reviews the carrying value of each hotel property in accordance with Statement of Financial Accounting Standards ('SFAS') No. 121 to determine if circumstances exist indicating an impairment in the carrying value of the investment in the hotel property or that depreciation periods should be modified. If facts or circumstances support the possibility of impairment, the Company will prepare a projection of the undiscounted future cash flows of the specific hotel property and determine if the investment in the hotel property is recoverable based on the undiscounted future cash flows. If impairment is indicated, an adjustment will be made to the carrying value of the

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

hotel property based on the discounted cash flows. The Company does not believe that there are any current facts or circumstances indicating impairment of any of its property, plant and equipment. Property, plant and equipment consists of the following at September 30, 1998:

	SEPTEMBER 30, 1998
	(IN THOUSANDS)
Land	\$ 6,900
Buildings and Improvements	51,105
Furniture, Fixtures and Equipment	4,725
	62,730
Accumulated Depreciation	(488)
	\$ 62,242

NOTE 5. DIVIDENDS TO BENEFICIARIES

In January 1998, the Company paid \$0.430 per share in dividends to common shareholders of record on December 31, 1997. In April 1998, the Company paid \$0.435 per share in dividends to common shareholders of record on March 31, 1998. In July 1998, the Company paid \$0.440 per share in dividends to common shareholders of record on June 30, 1998. In September 1998, the Company declared a \$0.450 per share dividend to common shareholders of record on September 30, 1998 which was paid on October 13, 1998.

NOTE 6. RELATED PARTY TRANSACTIONS

Pursuant to investment management agreements (the "Investment Management Agreements") between the Company and the investment management subsidiaries (the "Investment Manager") of PMC Capital, Inc. (an affiliated entity) the Company incurred fees of approximately \$2,078,000 for the nine months ended September 30, 1998. Of the servicing and advisory fees incurred under the Investment Management Agreements during the nine months ended September 30, 1998, \$171,000 has been offset against commitment fees as a direct cost of originating loans, \$466,000 has been capitalized as a direct cost of acquiring property, plant and equipment and \$165,000 has been capitalized as a direct cost of the structured financing completed during the second quarter (See Note 7).

Pursuant to the amended Investment Management Agreement with the Investment Manager, fees relating to loan originations and servicing are due based on the following. The quarterly servicing and advisory fee (the "Base Fee") is equal to (i) 0.4167% (1.67% on an annual basis) of the lesser of (a) the average quarterly value of common equity capital or (b) the average quarterly value of all invested assets and (ii) 0.21875% (0.875% on an annual basis) of the difference between the average quarterly value of all invested assets and the average quarterly value of common equity capital. For purposes of calculating the Base Fee, the average quarterly value of common equity capital is not increased by the proceeds received from any public offering of common shares by the Company (other than pursuant to the Company's dividend reinvestment plan or any employee/trust manager benefit plan) during the 180 day period subsequent to such offering.

Pursuant to the Investment Management Agreement (renewable on an annual basis) with the Investment Manager relating to property acquisitions by the Company (the "Property Management Agreement"), the Company will pay certain fees to the Investment Manager. The Property Management Agreement provides for a one time fee equal to the product of 0.75% multiplied by the purchase price paid by the Company to Amerihost Properties, Inc. and its subsidiaries ("Amerihost") in connection with the purchase of 30 hotels from Amerihost and an annual management

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. RELATED PARTY TRANSACTIONS (CONTINUED)

fee equal to the product of 0.70% multiplied by the acquisition cost of the properties (the "Amerihost Fee"). In the event the Property Management Agreement with the Investment Manager is terminated or not renewed by the Company (other than as a result of a material breach by the Investment Manager) or by the Investment Manager (as a result of a material breach by the Company), the Investment Manager would be entitled to receive the Amerihost Fee for a period of five years from the termination date.

NOTE 7. NOTES PAYABLE

During 1996, the 1996 Partnership, a special purpose affiliate of PMC Commercial, completed a private placement (the "1996 Private Placement") of \$29.5 million of its Fixed Rate Loan Backed Notes, Series 1996-1 (the "1996 Notes"). The 1996 Notes (i) have a present balance outstanding of \$10.0 million, (ii) mature in 2016, (iii) bear interest at the rate of 6.72% per annum and (iv) are collateralized by loans contributed by PMC Commercial to the 1996 Partnership, which loans have an aggregate balance of approximately \$20.2 million of principal outstanding at September 30, 1998.

During 1998, the 1998 Partnership, a special purpose affiliate of PMC Commercial, completed a private placement (the "1998 Private Placement") of \$66.1 million of its Fixed Rate Loan Backed Notes, Series 1998-1 (the "1998 Notes"). The 1998 Notes (i) have a present balance outstanding of \$62.9 million, (ii) mature in 2019, (iii) bear interest at the rate of 6.37% per annum and (iv) are collateralized by loans contributed by PMC Commercial to the 1998 Partnership, which loans have an aggregate balance of approximately \$68.5 million of principal outstanding at September 30, 1998.

As of September 30, 1998, the Company had \$22.3 million outstanding under a revolving credit facility (the "Revolver"). The weighted average interest rate on such advances under the Revolver was approximately 7.7% at September 30, 1998.

NOTE 8. NET INCOME PER SHARE

The weighted average number of common shares of beneficial interest outstanding were 6,492,000 and 6,204,000 for the nine months ended September 30, 1998 and 1997, respectively, and 6,512,000 and 6,275,000 for the three months ended September 30, 1998 and 1997, respectively. For purposes of calculating diluted earnings per share, the weighted average shares outstanding were increased by approximately 3,500 and 15,000 for the effect of stock options for both the three and nine months ended September 30, 1998 and 1997, respectively.

NOTE 9. RECENT ACCOUNTING PRONOUNCEMENTS

Disclosures about Segments of an Enterprise and Related Information

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for the way that public companies report information about segments in annual and interim financial statements. The requirements of SFAS No. 131 are not required in interim financial statements in the initial year of adoption.

Accounting for Contingent Rent in Interim Financial Periods

In May 1998, the Financial Accounting Standards Board's Emerging Issues Task Force issued EITF number 98-9, "Accounting for Contingent Rent in Interim Financial Periods" (EITF 98-9). EITF 98-9 provides that a lessor shall defer recognition of contingent rental income in interim periods until specified targets that trigger the contingent income are met. In July 1998, the Task Force issued transition guidance stating that the consensus could be applied on a prospective basis or in a manner similar to a change in accounting principle effective April 1, 1998. The Company

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

has reviewed the terms of its leases and has determined that the provisions of EITF 98-9 will not impact the Company's current revenue recognition, the Company's annual percentage lease revenue or cash flow from its third party lessees.

NOTE 10. PROPERTY ACQUISITION

On May 21, 1998, the Company and Amerihost entered into an agreement pursuant to which the Company would acquire and leaseback 30 hotels (the "Amerihost Properties"). Pursuant to the sale/leaseback agreement, the Company would lease the Amerihost Properties to Amerihost Inns, a wholly-owned subsidiary of Amerihost, for an initial 10 year period, with two renewal options of five years each. On June 30, 1998, the Company completed the acquisition of 26 of the 30 Amerihost Properties (the "Acquired Properties") for an aggregate purchase price of \$62.2 million. As a result of the Company's acquisition of the Acquired Properties, the lease has an initial fixed payment of \$6.2 million per year for the first three years with increases allowed up to the lesser of the consumer price index increase or two percent per year beginning after the third year. The Company intends to acquire the remaining four Amerihost Properties by June 1999, subject to certain conditions, and, as a result, the fixed lease payment would increase to \$7.3 million per year. Amerihost guarantees the lease payment obligation of Amerihost Inns.

The following unaudited condensed pro forma results of operations of the Company for the nine months ended September 30, 1998 and 1997 were prepared as if the transaction had occurred on January 1, 1998 and 1997, respectively. The adjustments to the historical financial statements principally consist of (i) recognizing lease revenue, (ii) recording depreciation on the Acquired Properties, (iii) and recording interest expense on the debt related to the Acquired Properties:

	Nine Months Ended September 30,	
	----- 1998	1997 -----
Revenues	\$16,422	\$15,247
Net Income	\$ 8,656	\$ 7,854
Basic and Diluted Earnings Per Share	\$ 1.33	\$ 1.27

NOTE 11. SUBSEQUENT EVENT - CANCELLATION OF PROPOSED MERGER

The Company had entered into an Agreement and Plan of Merger with Supertel Hospitality, Inc. ("Supertel") pursuant to which Supertel would have merged with and into the Company, subject to the satisfaction of certain conditions to closing. On October 15, 1998 the Company announced that the PMC Commercial Board of Trust Managers and the Supertel Hospitality, Inc. Board of Directors agreed to terminate the merger agreement between the two companies. In connection with the proposed merger, the Company incurred merger related costs of approximately \$569,000 which is included in Other Assets on the accompanying balance sheet as of September 30, 1998. These costs (approximately \$0.09 per common share) will be expensed during the fourth quarter of 1998.

PART I
FINANCIAL INFORMATION

ITEM 2 .
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

OVERVIEW

The Company was organized in June 1993 and had no operations prior to completion of its initial public offering (the "IPO") on December 28, 1993. Prior to the Amerihost Transaction (as hereinafter defined), the Company was solely a commercial lender that originated loans to small business enterprises, primarily collateralized by first liens on real estate of the related business. The Company's lending function consists primarily of making loans to borrowers who operate in the lodging industry. On June 30, 1998, the Company completed the acquisition of 26 motel properties (the "Acquired Amerihost Properties") from Amerihost Properties, Inc. and/or its subsidiaries ("Amerihost") for \$62.2 million in a sale/leaseback transaction (the "Amerihost Transaction"). The Company will continue to attempt to enhance shareholder value by increasing its loan portfolio and making strategic acquisitions of commercial properties.

During the three and nine months ended September 30, 1998 the Company funded loans of \$8.4 and \$34.1 million, respectively. During the years ended December 31, 1997, 1996 and 1995, the Company originated and funded \$43.1 million, \$40.4 million and \$31.7 million of loans, respectively. A substantial portion of such loan originations were to corporations and individuals in the lodging industry.

As of September 30, 1998 and December 31, 1997, the total portfolio outstanding was \$127.2 million and \$110.8 million, respectively (\$125.3 million and \$109.1 million, respectively, after reductions for loans purchased at a discount and deferred commitment fees), with a weighted average contractual interest rate as of September 30, 1998 of approximately 10.5%. The weighted average contractual interest rate does not include the effects of the amortization of discount on purchased loans or commitment fees on funded loans. The annualized average yields on loans, including all loan fees earned, for the nine months ended September 30, 1998 and the years ended December 31, 1997, 1996 and 1995 were approximately 12.7%, 12.4%, 12.1% and 12.1%, respectively. Generally, these loans are collateralized by first liens on real estate and guaranteed by the principals of the businesses financed. Included in principal outstanding at September 30, 1998 are \$2.1 million of interim financing which have been advanced pursuant to the SBA's section 504 lending program. Interest rates charged on such advances are comparable to those which are customarily charged by the Company.

As of September 30, 1998, the Company had one loan which was greater than 30 days delinquent and a second loan which is considered a "problem loan" since the borrower has lost its franchise affiliation. The aggregate principal balance outstanding of the delinquent loan was approximately \$820,000 and the "problem loan" was \$1,030,000. The delinquent loan was paid in full, including interest, in October, 1998. As of September 30, 1998, the Company had established a reserve in the amount of \$90,000 against the "problem loan". In the event such loan is required to be liquidated, management estimates the collateral relating to the "problem loan" will equal or exceed the principal balance outstanding on the loan less the related reserve.

The Company believes that favorable opportunities exist for the acquisition of lodging properties at attractive returns, particularly with respect to smaller, limited service motels operated under national franchises, at prices at or below replacement cost. Accordingly, the Company intends to continue to acquire additional lodging properties or portfolios of lodging properties thereby deriving revenues from fixed leases and participating in increased revenue from those properties. As a result, the Company believes it will be able to continue to accomplish its objective of maximizing cash available for distributions and enhancing shareholder value.

The Company concentrates its real estate investment activities on lodging properties, or portfolios of properties, which meet one or more of the following criteria:

- (i) Properties located in areas with a variety of revenue generators, such as colleges, recreational areas or interstate highways.
- (ii) Properties with intrinsic values equal to or less than replacement values.
- (iii) Properties which are currently managed by a management group with a demonstrated ability to pay fixed lease obligations.
- (iv) Portfolios of properties which exhibit some or all of the criteria discussed above, where purchasing several properties in one transaction enables the Company to obtain a favorable price or to purchase attractive assets that otherwise would not be available.

Because the Company is independent of the lessees and operators of its lodging properties, the Company has flexibility with respect to acquiring and leasing additional hotels. Due to the current favorable acquisition environment for lodging properties, the Company intends to continue to pursue acquisitions in an effort to attain the Company's growth objectives. The Company believes it is possible to acquire lodging properties with existing or achievable cash flows to pay the lease obligations needed by the Company to satisfy its investment criteria.

RECENT DEVELOPMENTS

AMERIHOST TRANSACTION. On May 21, 1998, the Company and Amerihost entered into an agreement pursuant to which the Company would acquire and leaseback 30 motel properties (the "Amerihost Properties"). Pursuant to the sale/leaseback agreement, the Company would lease the Amerihost Properties to Amerihost Inns, a wholly-owned subsidiary of Amerihost, for an initial 10 year period, with two renewal options of five years each, with consumer price index increases up to a maximum of two percent per year beginning after the third year.

On June 30, 1998, the Company completed the acquisition of the 26 Acquired Amerihost Properties for an aggregate purchase price of \$62.2 million. The Acquired Amerihost Properties contain 1,575 rooms. The aggregate amount of the lease payments for the Acquired Properties is \$6.22 million per year. The Company must consummate the acquisitions of any or all of the remaining four properties by June 30, 1999. The Company intends to acquire the remaining four Amerihost Properties, subject to certain conditions, including the assumption of the debt existing on such four properties., and, as a result, the fixed lease payment would increase to \$7.3 million per year. Amerihost guarantees the lease payment obligation of Amerihost Inns.

The following tables show statistical data regarding the 26 Acquired Amerihost Properties on an actual and a pro forma basis. The four remaining Amerihost Properties which the Company may acquire are located in: (1) Macomb, Illinois, (2) Sycamore, Illinois, (3) Plainfield, Indiana and (4) Marysville, Ohio. The hotels in Illinois and Indiana have 60 rooms each and the Marysville, Ohio hotel has 79 rooms, for a total of 259 additional rooms. The hotel in Jackson, Tennessee was opened in April 1998. The pro forma assumes the hotels owned at September 30, 1998 were owned by the Company throughout the nine months ended September 30, 1998:

CITY ----	STATE -----	HOTEL -----
Anderson	California	61
Yreka	California	61
Eagles Landing	Georgia	60
La Grange	Georgia	59
Smyrna	Georgia	60
Rochelle	Illinois	61
Mt. Pleasant	Iowa	63
Storm Lake	Iowa	61
Coopersville	Michigan	60
Grand Rapids North	Michigan	60
Grand Rapids South	Michigan	61
Hudsonville	Michigan	61
Monroe	Michigan	63
Port Huron	Michigan	61
Tupelo	Mississippi	61
Warrenton	Missouri	63
Ashland	Ohio	62
Mansfield	Ohio	60
Wooster East	Ohio	58
Wooster North	Ohio	60
Grove City	Pennsylvania	61
Shippensburg	Pennsylvania	60
Jackson	Tennessee	61
McKinney	Texas	61
Kimberly	Wisconsin	63
Mosinee	Wisconsin	53

		1,575
		=====

	THREE MONTHS ENDED SEPTEMBER 30, -----			NINE MONTHS ENDED SEPTEMBER 30, -----		
	1998 ----	1997(1) -----	% INCREASE (DECREASE) -----	1998(1) -----	1997(1) -----	% INCREASE (DECREASE) -----
			(UNAUDITED)			
Occupancy	67.60%	60.60%	12%	58.80%	55.60%	6%
ADR (2)	\$ 54.14	\$ 54.21	--	\$ 52.97	\$ 53.11	--
RevPAR (3)	\$ 36.61	\$ 32.85	11%	\$ 31.16	\$ 29.54	5%

- (1) The tables show financial and statistical data of the properties for the periods presented which includes periods prior to June 30, 1998 (the date the Company acquired the properties). Room revenue was \$5,306,000 and \$13,221,000 for the three and nine months ended September 30, 1998, respectively.
- (2) "ADR" is defined as the average daily room rate.
- (3) "RevPAR" is defined as room revenue per available room and is determined by dividing room revenue by available rooms for the applicable period.

SUPERTEL TRANSACTION. On June 3, 1998, the Company entered into an Agreement and Plan of Merger with Supertel Hospitality, Inc. ("Supertel") pursuant to which Supertel would have merged with and into the Company, subject to the satisfaction of certain conditions to closing. On October 15, 1998 the Company announced that the Company's Board of Trust Managers and the Supertel Board of Directors agreed to terminate the merger agreement between the two companies. As part of the proposed merger, the Company had capitalized certain merger related costs. Other Assets includes approximately \$569,000 (or approximately \$.09 per share) which will be written off in the last quarter of 1998.

SECURED FINANCING TRANSACTION. On June 23, 1998, a special purpose limited partnership, PMC Commercial Trust, Ltd. 1998-1 (the "1998 Partnership"), created by the Company issued \$66.1 million aggregate principal amount of its loan-backed fixed rate notes (the "1998 Notes") in a private placement. The Company owns, directly or indirectly, all of the interests in the 1998 Partnership. The 1998 Notes, issued at par, which have a stated maturity of May 1, 2019 and bear interest at the rate of 6.37% per annum, were collateralized by an initial amount of approximately \$71.9 million of loans contributed by the Company to the 1998 Partnership. In connection with this transaction, the 1998 Notes were given a rating of "Aaa" by Moody's Investors Service, Inc. The 1998 Partnership has the exclusive obligation for repayment of the 1998 Notes and the holders of the 1998 Notes have no recourse to the Company or its assets in the event of nonpayment. The net proceeds from the issuance of the 1998 Notes (approximately \$46.5 million after giving effect to costs of approximately \$400,000, repayment of certain indebtedness related to the contributed loans of approximately \$14.6 million, a \$2.2 million initial reserve deposit held by the trustee as collateral and a deposit of \$2.4 million representing collections or prepayments on the underlying loans due to the holders of the 1998 Notes) were distributed to the Company in accordance with its interest in the 1998 Partnership. The Company utilized these proceeds to help fund the acquisition of the Acquired Amerihost Properties.

LOAN PREPAYMENT CONSIDERATIONS

The terms of the loans originated by the Company provide that, subject to certain exceptions and other qualifications described below, voluntary prepayments of principal of the loans (each, a "Principal Prepayment") are permitted but are required to be accompanied by a yield maintenance Charge (a "Yield Maintenance Charge"), during all of their respective terms to maturity.

The Yield Maintenance Charge for each loan as to which Principal Prepayments are required to be accompanied by a Yield Maintenance Charge, at any time of determination, will generally be equal to the greater of either 95 days of interest at the stated interest rate applied to the amount of principal being prepaid, or a yield maintenance premium (the "Yield Maintenance Premium"). For the majority of the Company's loans, the Yield Maintenance Premium is calculated by multiplying the amount of principal being prepaid by the product of the number of years remaining to maturity of the loan and the Reinvestment Rate (as defined hereafter). For the majority of the loans, the "Reinvestment Rate" is the difference between the U.S. Treasury Rate nearest to the loan's original maturity at the time of origination of the loan and the 5-year U.S. Treasury Rate at the time of prepayment. Generally, as prevailing interest rates decline, the amount of the Yield Maintenance Premium increases. Some of the loans permit the prepayment of up to 10% of the original loan principal balance per year without penalty.

INTEREST RATE AND PREPAYMENT RISK

The ability of the Company to achieve certain of its investment objectives will depend in part on its ability to continue to borrow funds or issue preferred shares of beneficial interest on favorable terms, and there can be no assurance that such borrowings or issuances can in fact be achieved. The Company's net income is materially dependent upon the "spread" between the rate at which it borrows funds (typically either short-term at variable rates or long-term at fixed rates) and the rate at which it loans these funds (typically long-term at fixed rates). During periods of changing interest rates, interest rate mismatches could negatively impact the Company's net income and dividend yield and, as a result the market price of the Company Common Shares. As interest rates have declined, the Company has experienced loan prepayments, and such prepayments, as well as scheduled repayments, have generally been reloaned at lower rates. A high volume of loan prepayments could have an adverse effect on the Company's business, financial condition and results of operations and on its ability to maintain distributions at the level then existing. The loans originated by the Company have prepayment fees charged as described above which the Company believes helps mitigate the likelihood and effect of Principal Prepayments.

CERTAIN ACCOUNTING CONSIDERATIONS

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

The Company follows the accounting practices prescribed by the American Institute of Certified Public Accountants - Accounting Standards Division in Statement of Position 75-2 "Accounting Practices of Real Estate Investment Trusts" ("SOP 75-2"). In accordance with SOP 75-2, a loan loss reserve is established based on a

determination, through an evaluation of the recoverability of individual loans, by the Board of Trust Managers that significant doubt exists as to the ultimate realization of the loan. To date, a \$90,000 loan loss reserve has been established. The determination of whether significant doubt exists and whether a loan loss provision is necessary for each loan requires judgement and consideration of the facts and circumstances existing at the evaluation date. Changes to the facts and circumstances of the borrower, the lodging industry and the economy may require the establishment of significant additional loan loss reserves. At such time a determination is made that there exists significant doubt as to the ultimate realization of a loan, the effect to operating results may be material.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 1997

The net income of the Company increased by \$826,000 (11%) from \$7,752,000 during the nine months ended September 30, 1997, to \$8,578,000 during the nine months ended September 30, 1998. The earnings per share of the Company increased by approximately 6% from \$1.25 per share for the nine months ended September 30, 1997, to \$1.32 per share for the nine months ended September 30, 1998. The weighted average shares outstanding increased by approximately 5% from 6,204,000 for the nine months ended September 30, 1997 to 6,492,000 for the nine months ended September 30, 1998 as a result of shares issued pursuant to the dividend reinvestment and cash purchase plan.

Interest income - loans increased by \$895,000 (10%), from \$9,126,000 during the nine months ended September 30, 1997, to \$10,021,000 during the nine months ended September 30, 1998. This increase was primarily attributable to the reallocation of the Company's investments from cash and government securities to higher-yielding loans to small businesses. The average invested assets in loans to small businesses increased by \$14.5 million (14%), from \$103.1 million during the nine months ended September 30, 1997, to \$117.6 million during the nine months ended September 30, 1998. The annualized average yields on loans, including all loan fees earned, for the nine months ended September 30, 1998 and 1997 were approximately 12.7% and 12.4%, respectively. The increased yield was primarily a result of the recognition of prepayment fees (included in other income as discussed below). Interest income - loans includes interest earned on loans, the accretion of discounts on purchased loans and the accretion of deferred commitment fees.

Lease income was \$1,678,000 during the nine months ended September 30, 1998. This amount is attributable to the lease payments received on the Amerihost Properties, acquired by the Company on June 30, 1998, pursuant to the sales/leaseback agreement.

Interest and dividends - other investments decreased by \$379,000 (63%), from \$603,000 during the nine months ended September 30, 1997, to \$224,000 during the nine months ended September 30, 1998. This decrease was due to a decrease in short-term investments. The average short-term investments of the Company decreased by \$11.2 million (75%), from \$15.0 million during the nine months ended September 30, 1997, to \$3.8 million during the nine months ended September 30, 1998. The average yields on short-term investments during the nine months ended September 30, 1998 and 1997 were approximately 5.0% and 5.4%, respectively.

Other income increased by \$613,000, from \$593,000 during the nine months ended September 30, 1997, to \$1,206,000 during the nine months ended September 30, 1998. Other income consists of: (i) amortization of construction monitoring fees, (ii) prepayment fees, (iii) late and other loan fees and (iv) miscellaneous collections. This increase was primarily attributable to the collection of prepayment fees during the nine months ended September 30, 1998 of \$953,000 compared to \$347,000 during the nine months ended September 30, 1997. During the nine months ended September 30, 1998 and 1997, 12 and 14 loans in the amount of approximately \$12.3 million and \$13.5 million, respectively, paid in full. Prepayment fee income as a percentage of prepaid loans was greater during the nine months ended September 30, 1998 as compared to the nine months ended September 30, 1997 as a result of the "make whole" provisions of the prepayment fees. Additionally, income recognized from late fees on loans increased by \$23,000, from \$24,000 during the nine months ended September 30, 1997, to \$47,000 during the nine months ended September 30, 1998.

Pursuant to the Investment Management Agreements, as amended, the Company incurred an aggregate of \$2,078,000 in fees for the nine months ended September 30, 1998. Of the total fees paid or payable to the Investment Manager during the nine months ended September 30, 1998, \$171,000 has been offset against commitment fees as a direct cost of originating loans, \$165,000 was capitalized as part of the structured financing completed in June 1998,

and a \$466,000 fee charged related to the acquisition of the Amerihost Properties was capitalized as a cost of the properties. Investment management fees were \$1,203,000 for the nine months ended September 30, 1997. Of the total management fees paid or payable to the Investment Manager during the nine months ended September 30, 1997, \$130,000 was offset against commitment fees as a direct cost of originating loans. The increase in investment management fees (based on the loans receivable outstanding) from \$1,203,000 during the nine months ended September 30, 1997 to \$1,339,000 during the nine months ended September 30, 1998 or \$136,000 (prior to offsetting direct costs related to the origination of loans), or 11%, is primarily due to increases in the Company's invested assets and common equity capital. The average invested assets as defined in the Investment Management Agreements increased by \$14.9 million (14%), from \$103.1 million during the nine months ended September 30, 1997, to \$118.0 million during the nine months ended September 30, 1998. The average common equity capital as defined in the Investment Management Agreement increased by \$5.3 million (6%), from \$88.1 million during the nine months ended September 30, 1997, to \$93.4 million during the nine months ended September 30, 1998.

Legal and accounting fees increased by \$14,000 (37%), from \$38,000 during the nine months ended September 30, 1997, to \$52,000 during the nine months ended September 30, 1998.

General and administrative expenses increased by \$36,000 (32%), from \$114,000 during the nine months ended September 30, 1997, to \$150,000 during the nine months ended September 30, 1998. This increase is primarily attributable to an increase in costs related to printing and shareholder servicing expenses.

Interest expense during the nine months ended September 30, 1998 of \$2,555,000 consisted primarily of interest incurred on the 1996 Notes issued pursuant to the 1996 Private Placement (approximately \$666,000), the 1998 Notes issued pursuant to the 1998 Private Placement (approximately \$1,115,000) and the revolving credit facility (approximately \$582,000). During the nine months ended September 30, 1997, interest expense of \$1,295,000 consisted of interest incurred on the 1996 Notes issued pursuant to the 1996 Private Placement (approximately \$1,235,000).

As the Company is currently qualified as a Real Estate Investment Trust ("REIT") under the applicable provisions of the Internal Revenue Code of 1986, as amended ("the Code"), there are no provisions in the financial statements for Federal income taxes.

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 1997

The net income of the Company increased by \$607,000 (23%) from \$2,608,000 during the three months ended September 30, 1997, to \$3,215,000 during the three months ended September 30, 1998. The earnings per share of the Company increased by approximately 17% from \$0.42 per share for the three months ended September 30, 1997, to \$0.49 per share for the three months ended September 30, 1998. The weighted average shares outstanding increased by approximately 4% from 6,275,000 for the three months ended September 30, 1997 to 6,512,000 for the three months ended September 30, 1998 as a result of shares issued pursuant to the dividend reinvestment and cash purchase plan.

Interest income - loans increased by \$452,000 (14%), from \$3,126,000 during the three months ended September 30, 1997, to \$3,578,000 during the three months ended September 30, 1998. This increase was primarily attributable to the reallocation of the Company's investments from cash and government securities to higher-yielding loans to small businesses. The average invested assets in loans to small businesses increased by \$18.2 million (17%), from \$106.5 million during the three months ended September 30, 1997, to \$124.7 million during the three months ended September 30, 1998. The annualized average yields on loans, including all loan fees earned, for the three months ended September 30, 1998 and 1997 were approximately 13.6% and 12.2%, respectively. The increased yield was primarily a result of the recognition of prepayment fees (included in other income as discussed below). Interest income - loans includes interest earned on loans, the accretion of discounts on purchased loans and the accretion of deferred commitment fees.

Lease income was \$1,661,000, during the three months ended September 30, 1998. This increase was attributable to the lease payments received on the Amerihost Properties, acquired by the Company on June 30, 1998, pursuant to the sale/leaseback agreement.

Interest and dividends - other investments decreased by \$59,000 (41%) from \$144,000 during the three months ended September 30, 1997, to \$85,000 during the three months ended September 30, 1998. This decrease was due to a decrease in short-term investments. The average short-term investments of the Company decreased by \$2.9 million

from \$10.0 million during the three months ended September 30, 1997, to \$7.1 million during the three months ended September 30, 1998. The average yields on short-term investments during the three months ended September 30, 1998 and 1997 were approximately 5.1% and 5.7%, respectively.

Other income increased by \$473,000 (305%), from \$155,000 during the three months ended September 30, 1997, to \$628,000 during the three months ended September 30, 1998. Other income consists of: (i) amortization of construction monitoring fees, (ii) prepayment fees, (iii) late and other loan fees and (iv) miscellaneous collections. The increase was principally attributable to the collection of prepayment fees during the three months ended September 30, 1998 of \$545,000 compared to \$65,000 during the three months ended September 30, 1997. During the three months ended September 30, 1998 and 1997, five and three loans in the amount of approximately \$5.9 million and \$3.9 million, respectively, paid in full. Prepayment fee income as a percentage of prepaid loans was greater during the three months ended September 30, 1998 as compared to the three months ended September 30, 1997 as a result of the "make whole" provisions of the prepayment fees. Also, late payment fees were \$14,000 during the three months ended September 30, 1998 compared to \$4,000 during the three months ended September 30, 1997. The increase was partially offset by income recognized from other loan-related fees, such as assumption, modification and extension fees. These fees decreased by \$17,000 from \$86,000 during the three months ended September 30, 1997, to \$69,000 during the three months ended September 30, 1998.

Pursuant to the Investment Management Agreements, as amended, the Company incurred an aggregate of \$571,000 in fees for the three months ended September 30, 1998. Of the total fees paid or payable to the Investment Manager during the three months ended September 30, 1998, \$45,000 has been offset against commitment fees as a direct cost of originating loans. Included in investment management fees for the three months ended September 30, 1998 is \$108,000 in fees related to the Amerihost Properties. Investment management fees were \$405,000 for the three months ended September 30, 1997. Of the total management fees paid or payable to the Investment Manager during the three months ended September 30, 1997, \$36,000 was offset against commitment fees as a direct cost of originating loans. The increase in investment management fees (excluding the fees relating to the Amerihost Properties) from \$441,000 during the three months ended September 30, 1997 to \$463,000 during the three months ended September 30, 1998 or \$22,000 (prior to offsetting direct costs related to the origination of loans), or 5%, is primarily due to increases in the Company's invested assets and common equity capital. The average invested assets as defined in the Investment Management Agreements increased by \$19.8 million (19%), from \$105.1 million during the three months ended September 30, 1997, to \$124.9 million during the three months ended September 30, 1998. The average common equity capital as defined in the Investment Management Agreement increased by \$4.6 million (5%) from \$89.4 million during the three months ended September 30, 1997, to \$94.0 million during the three months ended September 30, 1998.

Legal and accounting fees were \$8,000 for the three months ended September 30, 1998. There were no legal and accounting fees for the three months ended September 30, 1997.

General and administrative expenses increased by \$12,000 (32%), from \$37,000 during the three months ended September 30, 1997, to \$49,000 during the three months ended September 30, 1998. This increase is primarily attributable to an increase in costs related to printing and shareholder servicing expenses.

Interest expense during the three months ended September 30, 1998 of \$1,656,000 consisted primarily of interest incurred on the notes issued pursuant to the 1996 Private Placement (approximately \$192,000), the 1998 Private Placement (approximately \$1,021,000) and interest on the revolving credit facility (approximately \$367,000). During the three months ended September 30, 1997, interest expense of \$397,000 consisted primarily of interest incurred on the 1996 Private Placement (approximately \$365,000).

As the Company is currently qualified as a real estate investment trust under the applicable provisions of the Code, there are no provisions in the financial statements for Federal income taxes.

CASH FLOW ANALYSIS

The Company generated \$11,059,000 and \$6,751,000 from operating activities during the nine months ended September 30, 1998 and 1997, respectively. The increase of \$4,308,000 (64%) was primarily due to an increase in net income of \$826,000 from \$7,752,000 during the nine months ended September 30, 1997 to \$8,578,000 during the nine months ended September 30, 1998, fluctuations in borrower advances which increased by \$1,353,000 from a use of \$569,000 during the nine months ended September 30, 1997, to a source of \$784,000 during the nine months ended September 30, 1998, the change related to "due to affiliates" which increased by \$548,000 from a use of \$285,000

during the nine months ended September 30, 1997, to a source of \$263,000 during the nine months ended September 30, 1998 and an increase in other liabilities from \$23,000 during the nine months ended September 30, 1997 to \$1,533,000 during the nine months ended September 30, 1998. The increase in other liabilities is due to deposits, held by the Company for Amerihost, pursuant to the sale/leaseback agreement (approximately \$1,050,000) and, the accrual of merger related costs (approximately \$569,000) related to the terminated Supertel merger.

The Company used \$80,701,000 and \$18,644,000 through investing activities during the nine months ended September 30, 1998 and 1997, respectively. The increased use of funds of \$62,057,000 was due primarily to: (i) the purchase of 26 motel properties from Amerihost for \$62,200,000, and (ii) a decrease in principal collected on loans of \$766,000 (primarily due to loan prepayments) during the nine months ended September 30, 1998 compared to the nine months ended September 30, 1997. This increased use of funds was partially offset by a decrease of \$1,753,000 in loans funded during the nine months ended September 30, 1998 compared to the nine months ended September 30, 1997.

The Company provided \$69,731,000 and used \$10,349,000 from financing activities during the nine months ended September 30, 1998 and 1997, respectively. During the nine months ended September 30, 1998, the increased source of funds is primarily due to the issuance of \$66,100,000 in loan backed fixed rate notes under the 1998 Partnership private placement and an increase in net borrowings of \$22,305,000 under the Company's revolving credit facility. The Company's main use of funds from financing activities are the payment of dividends as part of its requirements to maintain REIT status and the payment of principal on notes payable. Dividends paid increased \$1,047,000 from \$7,165,000 during the nine months ended September 30, 1997, to \$8,212,000 during the nine months ended September 30, 1998. This increase corresponds to the Company's increase in net income.

LIQUIDITY AND CAPITAL RESOURCES

The primary use of the Company's funds is to originate loans, to acquire commercial properties and, from time to time, to acquire loans from governmental agencies and/or their agents. The Company also uses funds for payment of dividends to shareholders, management and advisory fees (in lieu of salaries and other administrative overhead), general corporate overhead and interest and principal payments on borrowed funds.

At September 30, 1998, the Company had \$125,000 of cash and cash equivalents and approximately \$15.6 million of total loan commitments outstanding to 18 small business concerns predominantly in the lodging industry. The weighted average interest rate on these loan commitments at September 30, 1998 was 9.2%. Of those commitments, approximately \$8.4 million related to 12 partially funded construction loans. Approximately \$1.2 million of funding commitments remained on four SBA 504 Program loans. These commitments are made in the ordinary course of business and, in management's opinion, are generally on the same terms as those to existing borrowers. These commitments to extend credit are conditioned upon compliance with the terms of the commitment letter. Commitments have fixed expiration dates and require payment of a fee. Since some commitments expire without the proposed loan closing, the total committed amounts do not necessarily represent future cash requirements.

In general, to meet its liquidity requirements, including expansion of its outstanding loan portfolio and the acquisition of commercial properties, the Company intends to use: (i) its short-term credit facility as described below, (ii) the placement of long-term borrowings, (iii) the issuance of debt securities, and/or (iv) the offering of additional equity securities, including preferred shares of beneficial interest (the "Preferred Shares").

As a result of the current volatile market conditions for asset backed securities such as securities offered by the Company, there can be no assurance that similar types of securitizations or structured financings will be able to be completed or, if completed, will be on the terms attained on similar transactions completed by the Company. If additional funds are required, the Company will attempt to either issue unsecured notes and/or privately or publicly raise equity. Management believes that through utilization of one or more of these sources of debt or equity capital, the Company should meet its liquidity needs for the foreseeable future.

Pursuant to the Investment Management Agreement relating to the Company's loan portfolio, if the Company does not have available capital to fund outstanding commitments, the Investment Manager will refer such commitments to affiliates of the Company with respect to which the Company will receive no fees. The ability of the Company to meet its liquidity needs will depend on its ability to borrow funds or issue equity securities on favorable terms.

The Company has a revolving credit facility (the "Revolver") providing funds to originate loans collateralized by commercial real estate. The Revolver, as amended in June 1998, provides the Company up to the lesser of \$30

million or an amount equal to 50% of the value of the underlying property collateralizing the borrowings or up to 40% of the Company's owned properties. In addition, pursuant to the amendment to the Revolver, the bank has extended an additional \$10.0 million through an uncommitted credit facility (the "Guidance Line") available at the discretion of the bank. At September 30, 1998, the Company had \$22.3 million of outstanding borrowings under the Revolver and \$7.7 million available thereunder (\$17.7 million available including amounts under the Guidance Line). The Company is charged interest on the balance outstanding under the credit facility at the Company's election of either the prime rate of the lender less 50 basis points or 175 basis points over the 30, 60 or 90 day LIBOR. Additional funds will be available to the Company from the proceeds of SBA 504 Program loan takeouts. Management anticipates these sources of funds, proceeds from an additional structured sale or securitization of loans and/or properties and proceeds from loan prepayments will be adequate to meet its existing obligations.

During 1996, the Company completed the 1996 Private Placement of approximately \$29.5 million of the 1996 Notes, issued pursuant to a rated structured financing, which are collateralized by the 1996 Partnership's commercial loan portfolio. The 1996 Private Placement resulted in net proceeds to the Company of approximately \$27.3 million, of which approximately \$10.3 million were used to repay outstanding borrowings under the Revolver. Net income on these leveraged funds is materially dependent on the spread between the rate at which it borrowed these funds (6.72%) and the rate obtained on loan of these funds (presently the 1996 Partnership's outstanding portfolio has a weighted average coupon of approximately 11.1%). In July 1996, the Company completed the sale of 2,335,000 Common Shares pursuant to a public offering (the "Offering"). The Offering resulted in net proceeds to the Company of \$34.5 million, of which approximately \$547,000 were used to pay costs in connection with the Offering. At December 31, 1997, the Company had utilized all proceeds from the 1996 Private Placement and the Offering.

During 1998, the Company completed the 1998 Private Placement of approximately \$66.1 million of the 1998 Notes, issued pursuant to a rated structured financing, which are collateralized by the 1998 Partnership's commercial loan portfolio. The 1998 Private Placement resulted in net proceeds to the Company of approximately \$61.2 million, of which approximately \$14.6 million were used to repay outstanding borrowings under the Revolver. Cash flow on these leveraged funds is materially dependent on the spread between the rate at which it borrowed these funds (6.37%) and the rate obtained on loan of these funds (presently the 1998 Partnership's outstanding portfolio has a weighted average coupon of approximately 10.6%).

The Company's business is dependent upon leverage. In general, if the returns on loans originated by the Company with funds obtained from any borrowing or the issuance of any preferred shares fail to cover the cost of such funds, the net cash flow on such loans will be negative. Additionally, any increase in the interest rate earned by the Company on investments in excess of the interest rate or dividend rate incurred on the funds obtained from either borrowings or the issuance of preferred shares would cause its net income to increase more than it would without the leverage. Conversely, any decrease in the interest rate earned by the Company on investments would cause net income to decline by a greater amount than it would if the funds had not been obtained from either borrowings or the issuance of Preferred Shares. Leverage is thus generally considered a speculative investment technique. See "Loan Prepayment Considerations" and "Interest Rate and Prepayment Risk".

Earnings and profits, which will determine the taxability of dividends to shareholders, will differ from net income reported for financial reporting purposes due to the (i) differences for federal tax purposes in the estimated useful lives and methods used to compute depreciation and (ii) the recognition of commitment fees collected on loan originations. No distributions made through September 30, 1998 are considered to be a return of capital.

YEAR 2000 MANAGEMENT

In order to address the computer industry's "Year 2000" problem, the Company is in the process of monitoring the Investment Manager's upgrades to their accounting software. Management does not believe the costs for this upgrade will be significant. The Company is in the process of determining whether the company that manages the Amerihost Properties is in the process of studying the "Year 2000" issue. Upon completion, the Company will determine the extent to which it is vulnerable to third parties' failure to remedy their own "Year 2000" issues and the costs associated with resolving this issue.

FUNDS FROM OPERATIONS

The Company considers Funds From Operations ("FFO") a widely accepted and appropriate measure of performance for an equity or hybrid REIT that provides a relevant basis for comparison among REITs. FFO, as defined by the National Association of Real Estate Investment Trusts (NAREIT), means income (loss) before minority interest

(determined in accordance with GAAP), excluding gains (losses) from debt restructuring and sales of property, plus real estate depreciation and after adjustments for unconsolidated partnerships and joint ventures. FFO is presented to assist investors in analyzing the performance of the Company. The Company's method of calculating FFO may be different from the methods used by other REITs and, accordingly, may be not be comparable to such other REITs. The formulation of FFO below is consistent with the NAREIT White Paper Definition of FFO. FFO (i) does not represent cash flows from operations as defined by GAAP, (ii) is not indicative of cash available to fund all cash flow needs and liquidity, including its ability to make distributions, and (iii) should not be considered as an alternative to net income (as determined in accordance with GAAP) for purposes of evaluating the Company's operating performance.

The Company's FFO for the periods ended September 30, 1998 and 1997 was computed as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	1998	1997	1998	1997
	-----	-----	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net Income	\$3,215	\$2,608	\$8,578	\$7,752
Add depreciation and amortization	488	--	488	--
	-----	-----	-----	-----
FFO	\$3,703	\$2,608	\$9,066	\$7,752
	=====	=====	=====	=====
Weighted average shares	6,512	6,275	6,492	6,204
FFO per share	\$ 0.57	\$ 0.42	\$ 1.40	\$ 1.25

RECENT ACCOUNTING PRONOUNCEMENTS

Disclosures about Segments of an Enterprise and Related Information

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. This statement establishes standards for the way that public companies report information about segments in annual and interim financial statements. The requirements of SFAS No. 131 are not required in interim financial statements in the initial year of adoption.

Accounting for Contingent Rent in Interim Financial Periods

In May 1998, the Financial Accounting Standards Board's Emerging Issues Task Force issued EITF number 98-9, "Accounting for Contingent Rent in Interim Financial Periods" (EITF 98-9). EITF 98-9 provides that a lessor shall defer recognition of contingent rental income in interim periods until specified targets that trigger the contingent income are met. In July 1998, the Task Force issued transition guidance stating that the consensus could be applied on a prospective basis or in a manner similar to a change in accounting principle effective April 1, 1998. The Company has reviewed the terms of its leases and has determined that the provisions of EITF 98-9 will not impact the Company's current revenue recognition, the Company's annual percentage lease revenue or cash flow from its third party lessees.

RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS INCLUDED ON THIS FORM 10-Q

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, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations, including plans and objectives relating to future property acquisitions and the growth of the loan portfolio and availability of funds. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties and, in most instances, are identified through the use of words such as "anticipates," "expects" and "should." 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 the control of the Company. Although the Company believes 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 the Company or any other person that the objectives and plans of the Company will be achieved.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

PART II
OTHER INFORMATION

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 6. Exhibits and Reports on Form 8-K

A. Exhibits

27.1 Financial Data Schedule

99.1 PMC Commercial Trust Pro Forma Financial
Information (Unaudited)

B. Forms 8-K

The registrant filed a Form 8-K on September 25,
1998 relating to the proposed transaction with
Supertel Hospitality, Inc.

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.

PMC Commercial Trust

Date: 11/16/98

/s/ Lance B. Rosemore

Lance B. Rosemore
President

Date: 11/16/98

/s/ Barry N. Berlin

Barry N. Berlin
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number -----	Description -----
27.1	Financial Data Schedule
99.1	PMC Commercial Trust Pro Forma Financial Information (Unaudited)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE SEPTEMBER 30, 1998 FORM 10-Q OF THE PMC COMMERCIAL TRUST AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS	DEC-31-1998	JAN-01-1998	SEP-30-1998
			18
		107	
		126,165	
		(90)	
		0	
		0	62,730
		(488)	
		197,347	
8,634			
			95,216
		0	
		0	
		94,054	
		(557)	
197,347			
			0
		13,129	
			0
		0	
		1,966	
		30	
		2,555	
		8,578	
		0	
8,578			
		0	
		0	
			0
		8,578	
		1.32	
		1.32	

INCLUDES CURRENT AND LONG-TERM PORTION OF ALL LOANS RECEIVABLE - BEFORE RESERVE AND RELATED INTEREST RECEIVABLE.

INCLUDES THE FOLLOWING ITEMS NOT INCLUDED ABOVE:

(i)	OTHER ASSETS, NET	\$ 849
(ii)	DEFERRED BORROWING COSTS	744
(iii)	RESTRICTED INVESTMENTS	7,312

		\$8,905
		=====

INCLUDES THE FOLLOWING ITEMS NOT INCLUDED ABOVE:

(i)	DIVIDENDS PAYABLE	\$2,931
(ii)	OTHER LIABILITIES	1,766
(iii)	INTEREST PAYABLE	466
(iv)	BORROWER ADVANCES	2,215
(v)	UNEARNED COMMITMENT FEES	648
(vi)	DUE TO AFFILIATES	608
(vii)	UNEARNED CONSTRUCTION MONITORING FEES	--

		\$8,634
		=====

PMC COMMERCIAL TRUST AND SUBSIDIARIES PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The PMC Commercial Trust ("PMCT") Unaudited Pro Forma Condensed Consolidated Balance Sheet as of June 30, 1998 and the Unaudited Pro Forma Condensed Consolidated Statements of Income for the six month period ended June 30, 1998 and for the year ended December 31, 1997 set forth in this Exhibit 99.1 give effect to the following transactions as described further below, assuming such transactions had occurred on June 30, 1998, January 1, 1998, and January 1, 1997, respectively: (i) the issuance of \$66.1 million in fixed rate notes in a structured financing; and (ii) the purchase of 30 hotels from Amerihost Properties, Inc. and its subsidiaries ("Amerihost") for approximately \$73 million.

Structured Financing

On June 23, 1998, PMCT completed a structured financing by transferring approximately \$72 million in loans to an indirect-wholly owned subsidiary in exchange for \$66.1 million in fixed rate notes bearing interest at 6.37%. As a requirement to the financing, PMCT established restricted cash of \$4.2 million and capitalized approximately \$600,000 of costs associated with the transaction.

Amerihost Transaction

On June 30, 1998, PMCT acquired 26 hotel properties for an approximate cost of \$62.7 million (including approximately \$500,000 in related costs) and is committed to acquire an additional four properties no later than June 1999 (for an additional cost of \$10.8 million) for a total purchase price, exclusive of costs, of approximately \$73 million. The acquisition was primarily funded from the proceeds of the structured financing (\$61.3 million) described above and \$12.4 million from PMCT's revolving credit facility and the assumption of debt associated with certain properties. Simultaneous with the execution of the purchase agreement, PMCT entered into an agreement in which the properties were leased back to AmeriHost Inns, Inc., a subsidiary of Amerihost Properties, Inc., for guaranteed lease payments of \$6.2 million a year plus 2% of gross revenues generated by the properties which is to be held by the Company in escrow to be used for capital expenditures and furniture, fixtures and equipment improvements as required by the lease agreement. Upon acquisition of the remaining four properties, the guaranteed lease payments will increase to \$7.3 million per year.

In management's opinion, all material adjustments necessary to reflect the effects of the foregoing transactions have been made. The following unaudited pro forma condensed consolidated statements of income are not necessarily indicative of what the actual results of operations of PMCT would have been had such transactions been completed as of the beginning of the period presented, nor do they purport to represent the results of operations for future periods.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
 PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
 AS OF JUNE 30, 1998
 (IN THOUSANDS, EXCEPT PER SHARE DATA)
 (UNAUDITED)

	Historical PMC Commercial Trust -----	Amerihost Property Acquisition -----	PMC Commercial Trust and Amerihost Combined -----
ASSETS			
INVESTMENTS:			
Loans receivable, net	\$ 124,537	\$ --	\$ 124,537
Cash equivalents and restricted investments	8,057	--	8,057
Total Investments	132,594	--	132,594
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,900	1,196 (a)	8,096
Buildings	51,106	8,907 (a)	60,013
Furniture, fixtures and equipment	4,725	777 (a)	5,502
Total property, plant and equipment	62,731	10,880	73,611
	195,325	10,880	206,205
OTHER ASSETS:			
Cash	10	--	10
Receivables	716	--	716
Deferred borrowing costs, net	813	--	813
Other assets, net	262	--	262
TOTAL OTHER ASSETS	1,801	--	1,801
TOTAL ASSETS	\$ 197,126	\$ 10,880	\$ 208,006
LIABILITIES AND BENEFICIARIES' EQUITY			
LIABILITIES:			
Revolving credit facility and notes payable	\$ 95,671	\$ 10,880 (a)	\$ 106,551
Other liabilities	8,293	--	8,293
TOTAL LIABILITIES	103,964	10,880	114,844
Commitments and contingencies			
BENEFICIARIES' EQUITY:			
Common shares of beneficial interest; authorized 100,000,000 shares of \$0.01 par value; 6,509,321 shares issued and outstanding at June 30, 1998	65	--	65
Additional paid-in capital	93,938	--	93,938
Cumulative net income	31,040	--	31,040
Cumulative dividends	(31,881)	--	(31,881)
Total beneficiaries' equity	93,162	--	93,162
TOTAL LIABILITIES AND BENEFICIARIES' EQUITY	\$ 197,126	\$ 10,880	\$ 208,006
Shares outstanding	6,509	--	6,509
Net asset value per share	\$ 14.31		\$ 14.31

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO PRO FORMA FINANCIAL STATEMENTS AS OF
JUNE 30, 1998
(UNAUDITED)

- (a) Represents adjustments to reflect the purchase of the remaining four Amerihost properties for an aggregate cost of \$10.9 million, which includes approximately \$100,000 of costs associated with closing the transaction. Assumes the transaction was funded by \$8.0 million in proceeds from fixed rate notes assumed by the Company and approximately \$2.9 million in borrowings under the revolving credit facility. The remaining properties are expected to be acquired prior to June 1999.

PMC COMMERCIAL TRUST AND SUBSIDIARIES
 PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
 FOR THE SIX MONTHS ENDED JUNE 30, 1998
 (IN THOUSANDS, EXCEPT PER SHARE DATA)
 (UNAUDITED)

	Historical PMC Commercial Trust -----	Amerihost Property Acquisition -----	PMC Commercial Trust and Amerihost Combined -----
REVENUES			
Interest income	\$6,582	\$ --	\$ 6,582
Rental income	17	3,833(a)	3,850
Other	578	--	578
	-----	-----	-----
Total revenues	7,177	3,833	11,010
	-----	-----	-----
EXPENSES			
Advisory and management fee to affiliate.....	750	256(b)	1,006
Depreciation and amortization	--	1,159(c)	1,159
General and administrative	165	--	165
Interest	899	2,540(d)	3,439
	-----	-----	-----
Total expenses	1,814	3,955	5,769
	-----	-----	-----
Income before income tax	5,363	(122)	5,241
Income tax expense	--	--	--
	-----	-----	-----
NET INCOME	\$5,363	\$ (122)	\$ 5,241
	=====	=====	=====
EARNINGS PER SHARE:			
Basic and diluted	\$ 0.83	(\$ 0.02)	\$ 0.81
WEIGHTED AVERAGE SHARES OUTSTANDING	6,482	6,482	6,482

PMC COMMERCIAL TRUST AND SUBSIDIARIES
 PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT
 FOR THE YEAR ENDED DECEMBER 31, 1997
 (IN THOUSANDS, EXCEPT PER SHARE DATA)
 (UNAUDITED)

	Historical PMC Commercial Trust -----	Amerihost Property Acquisition -----	PMC Commercial Trust and Amerihost Combined -----
REVENUES			
Interest income	\$13,021	\$ --	\$13,021
Rental income	--	7,600(a)	7,600
Other	792	--	792
	-----	-----	-----
Total revenues	13,813	7,600	21,413
	-----	-----	-----
EXPENSES			
Advisory and management fee to affiliate.....	1,449	511(b)	1,960
Depreciation and amortization	--	2,318(c)	2,318
General and administrative	249	--	249
Interest	1,726	5,081(d)	6,807
	-----	-----	-----
Total expenses	3,424	7,910	11,334
	-----	-----	-----
NET INCOME	\$10,389	\$ (310)	\$10,079
	=====	=====	=====
EARNINGS PER SHARE:			
Basic and diluted	\$ 1.66	\$ (0.05)	\$ 1.61
WEIGHTED AVERAGE SHARES OUTSTANDING	6,242	6,242	6,242

PMC COMMERCIAL TRUST AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

- (a) Represents pro forma adjustments to rental income under the provisions of the lease agreement in which PMCT will earn \$7.3 million per year (\$1.825 million on a quarterly basis) plus 2% of gross revenues earned by the properties (\$10.0 million and \$14.8 million for the six months ended June 30, 1998, and the year ended December 31, 1997, respectively. As certain properties were not in operation for the entire period, lease revenue amounts for purposes of this pro forma financial statements presentation are not indicative of future operations. (See Certain Accounting Considerations on page 13 of this filing).
- (b) Represents adjustments to reflect the management fee due to the investment manager according to terms of the Investment Management agreement. The management fee relating to this transaction is 0.7% of assets acquired of approximately \$73 million or \$511,000 for the year ended December 31, 1997 and \$256,000 for the six month period ended June 30, 1998.
- (c) Represents additional depreciation on the assets acquired. Depreciation is computed based on estimated useful lives (35 years for buildings and improvements and 7 years for furniture, fixtures and equipment) and residual values. These estimated useful lives are based on management's knowledge of the properties and the lodging industry in general.
- (d) Represents adjustments to reflect the additional interest expense associated with the increased borrowings relating to the transaction as follows:
- (i) \$66.1 million of fixed rate notes at 6.37%;
 - (ii) \$2.9 million from the revolving credit facility at 8%, and
 - (iii) The assumption of approximately \$8.0 million debt associated with certain properties at 8%.