



CHATHAM LODGING TRUST
Annual Report 2014





Hotel Locations



CHATHAM LODGING TRUST

Chatham Lodging Trust is a self-advised real estate investment trust organized to invest in upscale extended-stay hotels and premium-branded select service hotels. Our properties are located in major markets with high barriers to entry, near primary demand generators for both business and leisure guests.



CHATHAM LODGING TRUST

2014 Chairman's Letter

After a very successful 2013, Chatham continued building on those achievements to deliver outstanding results in 2014. Our long-term goal is to be the leading lodging real estate investment trust (REIT) focused on investing in premium-branded, upscale, extended-stay and select-service hotels. We made significant strides toward that goal in 2014 through a number of important measures:

- generated a total shareholder return of 47 percent, this on top of a 40 percent increase in 2013
- expanded equity market capitalization 87 percent to \$985 million
- named to the MSCI US REIT Index (RMZ) which represents approximately 85 percent of the US REIT universe
- realized a tax-free gain of approximately \$80 million, or approximately \$3 per share, on the recapitalization of the Innkeepers joint venture
- grew hotel investments by approximately \$500 million, or nearly 70 percent, including the acquisition of four Silicon Valley Residence Inns
- increased EBITDA 64 percent
- advanced adjusted FFO almost 75 percent and adjusted FFO per share 28 percent

Operating Performance

We achieved excellent operating performance results in our wholly-owned portfolio of 34 hotels comprising 5,115 rooms.

We focus on acquiring premium-branded, select-service hotels in high demand growth markets in locations where land costs or land availability constrain new supply. This creates an excellent opportunity for our owned portfolio to achieve high absolute Revenue per Available Room (RevPAR). For our portfolio, RevPAR at our 34 hotels rose a strong 8.2 percent to \$122. This comes on top of 6.4 percent in 2013 and 8 percent RevPAR growth in 2012.

Industry-wide RevPAR growth of 8.3 percent in 2014 easily surpassed projections from most lodging experts and analysts at the beginning of the year as most people didn't expect lodging demand to grow 4.5 percent against a very modest 0.9 percent increase in room supply. New supply remains well below historical levels, and we expect that demand will outpace supply growth again in 2015.

Our RevPAR performance continued its aggressive growth across our portfolio with 14 of our hotels producing double-digit RevPAR gains throughout the year, a remarkable accomplishment and a testament to the quality of the hotels we have in our portfolio. Boston, Nashville, Dallas, Seattle, Denver, Silicon Valley, Anaheim and Washington, D.C., were our strongest markets.

Our recently acquired hotels drove our overall portfolio RevPAR growth. Our acquisition strategy focuses on acquiring hotels where RevPAR growth is projected to be higher than our current portfolio and markets match our specific criteria.

During 2014, we acquired nine hotels, including four fantastic Residence Inn by Marriott hotels in the heart of Silicon Valley, one of the strongest markets in the country and the perfect brand/segment for that market given

the high level of longer term travelers staying in the Valley. In 2014, excluding the Hyatt Place Cherry Creek which was closed for a portion of 2013, the eight acquired hotels generated RevPAR growth of 10.1 percent. RevPAR at our four Silicon Valley hotels grew 11.2 percent to \$166.

Adjusted EBITDA rose 64 percent to \$84.5 million, adjusted FFO grew 74 percent to \$55.0 million from \$31.7 million, and adjusted FFO per share advanced 28 percent to \$1.91 per share, driven by acquisitions and rising margins. Chatham has a unique hotel platform employing Island Hospitality, our affiliated management company, to aggressively operate all but two of our hotels. With RevPAR growth primarily caused by increased rates, our unique platform demonstrated its experience and strength in accelerating profits to the bottom line and generating strong internal profit growth. This past year, we enhanced our operating margins a stunning 340 basis points on an already enviable 44.9 percent to 48.3 percent, and our hotel EBITDA margins improved 400 basis points to 41.8 percent. Both margins were the highest of all lodging REITs in 2014. In addition to generating superior margins and profit growth, our hotels are recognized annually by the leading brands for their operating excellence and guest satisfaction scores.

Acquisitions

2014 was the most active year in our history with the acquisition of nine hotels for approximately \$500 million, a 70 percent increase for the year. The nine high quality hotels, comprising 1,520 rooms, are:

- 231-room Residence Inn by Marriott Silicon Valley #1 Sunnyvale, Calif.
- 248-room Residence Inn by Marriott Silicon Valley #2 Sunnyvale, Calif.
- 160-room Residence Inn by Marriott San Mateo, Calif.
- 112-room Residence Inn by Marriott Mountain View, Calif.
- 194-room Hyatt Place Denver/Cherry Creek, Colo.
- 179-room Hilton Garden Inn Burlington, Mass.
- 176-room Courtyard by Marriott Dallas (Addison), Texas
- 120-room Residence Inn by Marriott West University Houston, Texas
- 100-room Courtyard by Marriott West University Houston, Texas

These hotels are located in major markets and benefit from substantial corporate demand generators and markets we believe are great lodging markets for the long-term. We plan to partially redevelop and expand all four Silicon Valley Residence Inn hotels, increasing the room count by 36 percent to a total of 1,023 rooms. In addition to the 272-room expansion, we will be developing entirely new lobby and public spaces that will enhance the guest experience.

Solid Balance Sheet and Capital Structure

Despite the significant acquisition growth, our balance sheet remains in excellent condition with our leverage ratio a healthy 43.7 percent. The average interest rate on our debt is 4.6 percent, and the weighted average maturity date for our fixed rate debt is December 2023.

During 2014, we issued \$306 million of debt at an average rate of 4.6 percent and opportunistically accessed the equity markets to raise \$165 million via an overnight equity offering, our “At the Market Equity Offering Plan” and our “Dividend Reinvestment and Stock Purchase Plans.”

Our balance sheet is in great shape and has Chatham positioned for further portfolio growth in 2015. We only have \$22.5 million outstanding on our line of credit that is secured by ten hotels and 6 hotels are unencumbered. When we identify the right acquisition opportunities, we have the flexibility and balance sheet to use either borrowings under our line of credit or property specific debt to fund that growth.

Joint Ventures

In January 2014, along with our joint venture partners Cerberus Capital Management, we marketed the Innkeepers Joint Venture portfolio for sale. In June 2014, a joint venture between Chatham and NorthStar Realty Finance Corp., acquired the Innkeepers portfolio. As a result of the sale, Chatham earned a significant promote on the transaction, realizing a gain of approximately \$80 million on our original \$37 million investment in 2011. Additionally, we rolled our gain tax-free into the new Innkeepers Joint Venture along with acquiring four Silicon Valley hotels directly out of the Innkeepers Joint Venture. At the time of the transaction, the gain amounted to approximately \$3 per share. Like the former Innkeepers Joint Venture, we are able to earn a promote interest based on the ultimate returns generated by the joint venture.

In November 2014, we formed a second joint venture partnership with NorthStar, to acquire a 52-hotel portfolio comprising 6,976 rooms from Inland American. Chatham acquired four hotels comprising 575 rooms for approximately \$107 million from the portfolio. Concurrently, the remaining 48 upscale, extended-stay hotels and premium-branded, select-service hotels were purchased by the NorthStar/Chatham joint venture for a gross purchase price of \$964 million. NorthStar owns a 90 percent ownership interest in the joint venture, and Chatham owns a 10 percent interest. Like the Innkeepers joint venture, Chatham has the potential to earn a promote interest in the new joint venture with terms identical to those in the Innkeepers joint venture.

Both of these transactions provided Chatham with the opportunity to acquire eight hotels that we would not have been able to acquire had there not been a larger transaction associated with the purchase. This is one key reason why the joint ventures are an attractive option for us. Our ability to work with NorthStar to grow in tandem is meaningful to our growth strategy. Furthermore, the two joint venture transactions provide us with partial ownership in approximately \$2 billion of hotels and allow us the opportunity to leverage the infrastructure required for the much larger platform to Chatham's benefit.

Significant Dividend Increase

After a strong 2014, our Board of Trustees approved in January 2015 a 25 percent increase in our monthly dividend from \$0.08 per share to \$0.10 per share. On an annualized basis, the dividend will increase \$0.24 to \$1.20 per share in 2015, compared to \$0.96 in 2014. We have raised our annual dividend each year since our 2010 IPO, from \$0.35 per share in 2010 to \$1.20 per share for 2015, an increase of 243 percent and a testament to the strong cash flow that our platform is generating.

We are gratified that our Board of Trustees has the confidence to increase our monthly dividend once again, reflecting our strong 2014 performance and significant portfolio growth. We have stated since our IPO that we would increase our dividend in tandem with growth in cash flow, EBITDA and adjusted FFO per share. Since 2010, adjusted FFO per share has improved by approximately 30 percent per annum. We expect continued strong growth in 2015, giving us the confidence to support this significant increase and maintain a healthy and prudent FFO per share payout ratio at approximately 50 percent in 2015, based on the mid-point of our current guidance.

Outlook Points to Meaningful Growth Again in 2015

Most of us in the industry believe we still have running room remaining in this lodging cycle. Two leading industry forecasters, STR, Inc., and PKF Hospitality Research, LLC, currently estimate RevPAR growth of 6.4 percent and 7.6 percent, respectively for 2015. They estimate new supply growth will be 1.3 percent in 2015 and on average 1.6 percent in 2016, measures that remain at historical lows.

Our financial outlook for 2015 is robust, and we expect another year of significant growth. Based on the mid-point of our 2015 guidance, our best-in-class operating margins are estimated to rise approximately 240 basis points from 41.8 percent to 44.2 percent, and our adjusted FFO per share is projected to increase an impressive 25 percent to \$2.38. We estimate our 2015 RevPAR will improve 5 to 7 percent to approximately \$130.

These are strong growth dynamics and one of the reasons why we remain bullish on our portfolio and our external growth opportunities. Our portfolio is in great shape, and we are well-positioned to benefit greatly as these metrics improve further. Externally, we maintain an active pipeline, and we expect to make additional acquisitions in 2015. We continue to seek market transactions in targeted markets that provide enhanced RevPAR growth opportunities above both national averages and our current owned portfolio. We have one of the highest quality, select-service and upscale, extended-stay investment portfolios in the hotel REIT space, and we will continue to identify and acquire assets that exceed our very strict acquisition criteria.

As the current lodging cycle develops, experience matters. Our team has navigated through many lodging cycles. We will continue to pursue our goal of building Chatham into the premier, select-service hotel REIT through disciplined acquisitions financed with the right balance of equity and debt.

Thank you for your support. We truly appreciate it.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Fisher', written over a horizontal line.

Jeffrey H. Fisher
Chairman, Chief Executive Officer and President

April 9, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014

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: **001-34693**

CHATHAM LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of
Incorporation or Organization)

50 Coconut Row, Suite 211

Palm Beach, Florida

(Address of Principal Executive Offices)

27-1200777

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

33480

(Zip Code)

(561) 802-4477

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Shares of Beneficial Interest, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The aggregate market value of the 26,877,757 common shares of beneficial interest held by non-affiliates of the registrant was \$588,622,878.30 based on the closing sale price on the New York Stock Exchange for such common shares of beneficial interest as of June 30, 2014.

The number of common shares of beneficial interest outstanding as of March 16, 2015 was 38,298,287.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2015 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission on or before April 30, 2015) are incorporated by reference into this Annual Report on Form 10-K in response to Part III hereof.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains 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, and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words, such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity,” or similar expressions, whether in the negative or affirmative. All statements regarding our expected financial position, business and financing plans are forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include those discussed in “Business,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this Annual Report on Form 10-K. These risks and uncertainties should be considered in evaluating any forward-looking statement contained in this report or incorporated by reference herein.

All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, except as required by law.

PART I

Item 1. *Business*

Overview

Chatham Lodging Trust (“we,” “us” or the “Company”) was formed as a Maryland real estate investment trust on October 26, 2009. We elected to be taxed as a real estate investment trust for federal income tax purposes (a “REIT”) commencing with our 2010 taxable year. The Company is internally-managed and was organized to invest primarily in premium-branded upscale extended-stay and select-service hotels.

The Company had no operations prior to the consummation of its initial public offering (“IPO”) in April 2010. The net proceeds from our share offerings are contributed to Chatham Lodging, L.P., our operating partnership (the “Operating Partnership”), in exchange for partnership interests. Substantially all of the Company’s assets are held by, and all of its operations are conducted through, the Operating Partnership. Chatham Lodging Trust is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership. Certain of the Company’s executive officers hold vested and unvested long-term incentive plan units in the Operating Partnership, which are presented as non-controlling interests on our consolidated balance sheets.

From its inception through December 31, 2014, the Company has completed the following offerings of its common shares of beneficial interest, \$0.01 par value per share (“common shares”):

<u>Type of Offering</u>	<u>Date</u>	<u>Shares Issued</u>	<u>Price per Share</u>	<u>Gross Proceeds (in millions)</u>	<u>Net Proceeds (in millions)</u>
Initial public offering	4/21/2010	8,625,000	\$20.00	\$172,500.0	\$158,700.0
Private placement offering (1)	4/21/2010	500,000	20.00	10,000.0	10,000.0
Follow-on common share offering	2/8/2011	4,000,000	16.00	64,000.0	60,300.0
Over-allotment option	2/8/2011	600,000	16.00	9,600.0	9,100.0
Follow-on common share offering	1/14/2013	3,500,000	14.70	51,400.0	48,400.0
Over-allotment option	1/31/2013	92,677	14.70	1,400.0	1,300.0
Follow-on common share offering	6/18/2013	4,500,000	16.35	73,600.0	70,000.0
Over-allotment option	6/28/2013	475,823	16.35	7,800.0	7,400.0
Follow-on common share offering	9/30/2013	3,250,000	18.35	59,600.0	56,700.0
Over-allotment option	10/11/2013	487,500	18.35	8,900.0	8,500.0
Follow-on common share offering	9/24/2014	6,000,000	21.85	131,100	125,600
Over-allotment option	9/24/2014	900,000	21.85	19,700	18,900
		<u>32,931,000</u>		<u>\$ 609,600</u>	<u>\$ 574,900</u>

(1) The Company sold 500,000 common shares to Jeffrey H. Fisher, the Company’s Chairman, President and Chief Executive Officer (“Mr. Fisher”) in a private placement concurrent with the closing of its IPO.

In January 2014, the Company established a \$25 million dividend reinvestment and stock purchase plan (“DRSPP”). Under the DRSPP, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company’s common shares. Shareholders may also make optional cash purchases of the Company’s common shares subject to certain limitations detailed in the prospectus for the DRSPP. As of December 31, 2014 and 2013, respectively, we had issued 2,083 and 0 shares under the DRSP at a weighted average price of \$24.38. As of December 31, 2014, there was approximately \$24.9 million of commons shares available for issuance under the DRSPP.

In January 2014, the Company established an At the Market Equity Offering (“ATM Plan”) whereby, from time to time, we may publicly offer and sell up to \$50 million of our common shares by means of ordinary brokers’ transactions on the New York Stock Exchange (the “NYSE”), in negotiated transactions or in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of

1933, with Cantor Fitzgerald & Co. (“Cantor”) acting as sales agent. As of December 31, 2014 and 2013, respectively, we had issued 880,820 and 0 shares under the ATM Plan at a weighted average price of \$23.54 in addition to the offerings discussed above. As of December 31, 2014, there was approximately \$29.3 million commons shares available for issuance under the ATM Plan.

On January 13, 2015, the Company entered into a Sales Agreement (the “Barclays Sales Agreement”) with Barclays Capital Inc. (“Barclays”) to add Barclays as an additional sales agent under the Company’s existing “at-the-market” offering program for its common shares of beneficial interest, par value \$0.01 per share (the “Common Shares”).

As of December 31, 2014, the Company owned 34 hotels with an aggregate of 5,115 (unaudited) rooms located in 15 states and the District of Columbia. The Company also (i) held a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with NorthStar Realty Finance Corp (“NorthStar”), which was formed in the second quarter of 2014 and acquired 47 hotels from a joint venture (the “Innkeepers JV”) between the Company and Cerberus Capital Management (“Cerberus”), comprising an aggregate of 6,094 (unaudited) rooms, (ii) held a 10.0% noncontrolling interest in a separate joint venture (the “Inland JV”) with NorthStar, which was formed in the fourth quarter of 2014 and acquired 48 hotels from Inland American Real Estate Trust, Inc. (“Inland”), comprising an aggregate of 6,401 (unaudited) rooms, and (iii) held a 5.0% noncontrolling interest in a joint venture (the “Torrance JV”) with Cerberus that owns the 248-room (unaudited) Residence Inn by Marriott in Torrance, CA. We sometimes refer to the NewINK JV, Inland JV and Torrance JV collectively as the (“JVs”).

To qualify as a REIT, the Company cannot operate its hotels. Therefore, the Operating Partnership and its subsidiaries lease our wholly owned hotels to taxable REIT subsidiary lessees (“TRS Lessees”), which are wholly owned by one of the Company’s taxable REIT subsidiary (“TRS”) holding companies. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation. The Company indirectly owns its (i) 10.3% interest in 47 of the NewINK JV hotels, (ii) 10% interest in 48 of the Inland JV hotels and (iii) its 5% interest in the Torrance JV through the Operating Partnership. All of the NewINK JV hotels, Inland JV hotels and the Torrance JV hotel are leased to TRS Lessees, in which the Company indirectly owns noncontrolling interests through one of its TRS holding companies.

The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of December 31, 2014, Island Hospitality Management Inc. (“IHM”), which was 90% owned by Mr. Fisher, managed 32 of the Company’s wholly owned hotels and Concord Hospitality Enterprises Company (“Concord”) managed two of the Company’s wholly owned hotels. As of December 31, 2014, all of the NewINK JV hotels were managed by IHM. As of December 31, 2014, 34 of the Inland JV hotels are managed by IHM and 14 hotels are managed by Marriott International, Inc. (“Marriott”). The Torrance JV hotel is managed by Marriott.

As of December 31, 2014, our wholly owned hotels include upscale extended-stay hotels that operate under the Residence Inn by Marriott® brand (twelve hotels) and Homewood Suites by Hilton® brand (nine hotels), as well as premium-branded select-service hotels that operate under the Courtyard by Marriott® brand (four hotels), the Hampton Inn or Hampton Inn and Suites by Hilton® brand (three hotels), the SpringHill Suites by Marriott® brand (two hotels), the Hilton Garden Inn by Hilton® brand (two hotels) and the Hyatt Place® brand (two hotels).

We primarily invest in upscale extended-stay hotels such as Homewood Suites by Hilton® and Residence Inn by Marriott®. Upscale extended-stay hotels typically have the following characteristics:

- principal customer base includes business travelers who are on extended assignments and corporate relocations;

- services and amenities include complimentary breakfast and evening hospitality hour, high-speed internet access, in-room movie channels, limited meeting space, daily linen and room cleaning service, 24-hour front desk, guest grocery services, and an on-site maintenance staff; and
- physical facilities include large suites, quality construction, full separate kitchens in each guest suite, quality room furnishings, pool, and exercise facilities.

We also invest in premium-branded select-service hotels such as Courtyard by Marriott®, Hampton Inn and Suites®, Hyatt Place®, Hilton Garden Inn by Hilton® and SpringHill Suites by Marriott®. The service and amenity offerings of these hotels typically include complimentary breakfast, high-speed internet access, local calls, in-room movie channels, and daily linen and room cleaning service.

The following sets forth certain information with respect to our 34 wholly-owned hotels at December 31, 2014:

Property	Location	Management Company	Date of Acquisition	Year Opened	Number of Rooms	Purchase Price	Purchase Price per Room	Mortgage Debt Balance
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	Billerica, Massachusetts	IHM	4/23/2010	1999	147	\$ 12.5 million	\$ 85,714	\$16.2 million
Homewood Suites by Hilton Minneapolis-Mall of America	Bloomington, Minnesota	IHM	4/23/2010	1998	144	\$ 18.0 million	\$125,000	—
Homewood Suites by Hilton Nashville-Brentwood	Brentwood, Tennessee	IHM	4/23/2010	1998	121	\$ 11.3 million	\$ 93,388	—
Homewood Suites by Hilton Dallas-Market Center	Dallas, Texas	IHM	4/23/2010	1998	137	\$ 10.7 million	\$ 78,102	—
Homewood Suites by Hilton Hartford-Farmington	Farmington, Connecticut	IHM	4/23/2010	1999	121	\$ 11.5 million	\$ 95,041	—
Homewood Suites by Hilton Orlando-Maitland	Maitland, Florida	IHM	4/23/2010	2000	143	\$ 9.5 million	\$ 66,433	—
Homewood Suites by Hilton Carlsbad (North San Diego County)	Carlsbad, California	IHM	11/3/2010	2008	145	\$ 32.0 million	\$220,690	\$19.9 million
Hampton Inn & Suites Houston-Medical Center	Houston, Texas	IHM	7/2/2010	1997	120	\$ 16.5 million	\$137,500	\$18.3 million
Courtyard Altoona	Altoona, Pennsylvania	Concord	8/24/2010	2001	105	\$ 11.3 million	\$107,619	\$6.2 million
Springhill Suites Washington	Washington, Pennsylvania	Concord	8/24/2010	2000	86	\$ 12.0 million	\$139,535	\$4.8 million
Residence Inn Long Island Holtsville	Holtsville, New York	IHM	8/3/2010	2004	124	\$ 21.3 million	\$171,774	—
Residence Inn White Plains	White Plains, New York	IHM	9/23/2010	1982	134	\$ 21.2 million	\$159,398	—
Residence Inn New Rochelle	New Rochelle, New York	IHM	10/5/2010	2000	127	\$ 21.0 million	\$169,355	\$14.8 million
Residence Inn Garden Grove	Garden Grove, California	IHM	7/14/2011	2003	200	\$ 43.6 million	\$218,000	\$34.0 million
Residence Inn Mission Valley	San Diego, California	IHM	7/14/2011	2003	192	\$ 52.5 million	\$273,438	\$30.1 million
Homewood Suites by Hilton San Antonio River Walk	San Antonio, Texas	IHM	7/14/2011	1996	146	\$ 32.5 million	\$222,603	\$17.2 million
Residence Inn Washington DC	Washington, DC	IHM	7/14/2011	1974	103	\$ 29.4 million	\$280,000	—
Residence Inn Tysons Corner	Vienna, Virginia	IHM	7/14/2011	2001	121	\$ 37.0 million	\$305,785	\$23.5 million
Hampton Inn Portland Downtown	Portland, Maine	IHM	12/27/2012	2011	122	\$ 28.0 million	\$229,508	—
Courtyard Houston	Houston, Texas	IHM	2/5/2013	2010	197	\$ 34.8 million	\$176,395	\$19.5 million
Hyatt Place Pittsburgh North Shore	Pittsburgh, Pennsylvania	IHM	6/17/2013	2010	178	\$ 40.0 million	\$224,719	\$23.6 million
Hampton Inn Exeter	Exeter, New Hampshire	IHM	8/9/2013	2010	111	\$ 15.2 million	\$136,937	—
Hilton Garden Inn Denver Tech	Denver, Colorado	IHM	9/26/2013	1999	180	\$ 27.9 million	\$155,000	—
Residence Inn Bellevue	Bellevue, Washington	IHM	10/31/2013	2008	231	\$ 71.8 million	\$316,883	\$47.6 million
Springhill Suites Savannah	Savannah, Georgia	IHM	12/5/2013	2009	160	\$ 39.8 million	\$248,438	\$30.0 million
Residence Inn Silicon Valley I	Sunnyvale, CA	IHM	6/9/2014	1983	231	\$ 92.8 million	\$401,776	\$64.8 million
Residence Inn Silicon Valley II	Sunnyvale, CA	IHM	6/9/2014	1985	248	\$ 102 million	\$411,103	\$70.7 million
Residence Inn San Mateo	San Mateo, CA	IHM	6/9/2014	1985	160	\$ 72.7 million	\$454,097	\$48.6 million
Residence Inn Mountain View	Mountain View, CA	IHM	6/9/2014	1985	112	\$ 56.4 million	\$503,869	\$37.9 million
Hyatt Place Cherry Creek	Glendale, CO	IHM	8/29/2014	1987	194	\$ 32 million	\$164,948	—
Courtyard Addison	Addison, TX	IHM	11/17/2014	2000	176	\$ 24.1 million	\$137,178	—
Courtyard West University Houston	Houston, TX	IHM	11/17/2014	2004	100	\$ 20.1 million	\$201,481	—
Residence Inn West University Houston	Houston, TX	IHM	11/17/2014	2004	120	\$ 29.4 million	\$245,363	—
Hilton Garden Inn Burlington	Burlington, MA	IHM	11/17/2014	1975	179	\$ 33.0 million	\$184,392	—
Total					5,115	\$1,123.8 million	\$219,707	\$527.7 million

Financial Information About Industry Segments

We evaluate all of our hotels as a single industry segment because all of our hotels have similar economic characteristics and provide similar services to similar types of customers. Accordingly, we do not report segment information.

Business Strategy

Our primary objective is to generate attractive returns for our shareholders through investing in hotel properties (whether wholly owned or through a joint venture) at prices that provide strong returns on invested capital, paying dividends and generating long-term value appreciation. We believe we can create long-term value by pursuing the following strategies:

- *Disciplined acquisition of hotel properties:* We invest primarily in premium-branded upscale extended-stay and select-service hotels with a focus on the 25 largest metropolitan markets in the United States. We focus on acquiring hotel properties at prices below replacement cost in markets that have strong demand generators and where we expect demand growth will outpace new supply. We also seek to acquire properties that we believe are undermanaged or undercapitalized. We currently do not intend to engage in new hotel development.
- *Opportunistic hotel repositioning:* We employ value-added strategies, such as re-branding, renovating, expanding or changing management, when we believe such strategies will increase the operating results and values of the hotels we acquire.
- *Aggressive asset management:* Although as a REIT we cannot operate our hotels, we proactively manage our third-party hotel managers in seeking to maximize hotel operating performance. Our asset management activities seek to ensure that our third-party hotel managers effectively utilize franchise brands' marketing programs, develop effective sales management policies and plans, operate properties efficiently, control costs, and develop operational initiatives for our hotels that increase guest satisfaction. As part of our asset management activities, we regularly review opportunities to reinvest in our hotels to maintain quality, increase long-term value and generate attractive returns on invested capital.
- *Flexible selection of hotel management companies:* We are flexible in our selection of hotel management companies and select managers that we believe will maximize the performance of our hotels. We utilize independent management companies, including IHM, a hotel management company 90% owned by Mr. Fisher, that currently manages 32 of our wholly owned hotels, all of the hotels owned by the NewINK JV and 34 hotels owned by the Inland JV. We believe this strategy increases the universe of potential acquisition opportunities we can consider because many hotel properties are encumbered by long-term management contracts.
- *Selective investment in hotel debt:* We may consider selectively investing in debt collateralized by hotel property if we believe we can foreclose on or acquire ownership of the underlying hotel property in the relative near term. We do not intend to invest in any debt where we do not expect to gain ownership of the underlying property or to originate any debt financing.

We plan to maintain a prudent capital structure and intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) at a level that will be lower than the level at which we currently operate. A subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this limitation. While we intend to maintain our leverage over the long term at lower levels, our Board of Trustees believes that maintaining higher leverage levels at this stage of the lodging cycle is appropriate, as interest rates on a historical basis are very attractive. At December 31, 2014, our leverage ratio was approximately 44 percent, which increased from 36 percent at December 31, 2013. Over time, we intend to finance our growth with issuances of common shares, preferred shares and debt. Our debt may include mortgage debt collateralized by our hotel properties and unsecured debt.

When purchasing hotel properties, we may issue limited partnership interests in our operating partnership as full or partial consideration to sellers who may desire to take advantage of tax deferral on the sale of a hotel or participate in the potential appreciation in value of our common shares.

Competition

We face competition for investments in hotel properties from institutional pension funds, private equity investors, REITs, hotel companies and others who are engaged in hotel investments. Some of these entities have substantially greater financial and operational resources than we have or may be willing to use higher leverage. This competition may increase the bargaining power of property owners seeking to sell, reduce the number of suitable investment opportunities available to us and increase the cost of acquiring our targeted hotel properties.

The lodging industry is highly competitive. Our hotels compete with other hotels for guests in each market in which they operate. Competitive advantage is based on a number of factors, including location, convenience, brand affiliation, room rates, range of services and guest amenities or accommodations offered and quality of customer service. Competition is often specific to the individual markets in which our hotels are located and includes competition from existing and new hotels. Competition could adversely affect our occupancy rates, our average daily rates (“ADR”) and revenue per available room (“RevPAR”), and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which may reduce our profitability.

Seasonality

Demand for our hotels is affected by recurring seasonal patterns. Generally, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters. These general trends are, however, influenced by overall economic cycles and the geographic locations of our hotels. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, we expect to utilize cash on hand or borrowings under our credit facility to pay expenses, debt service or to make distributions to our equity holders.

Regulation

Our properties are subject to various covenants, laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe each of our hotels has the necessary permits and approvals to operate its business, and each is adequately covered by insurance.

Americans with Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990 (“ADA”) to the extent that such properties are “public accommodations” as defined by the ADA. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. Although we believe that the properties in which we own interests (including the JV properties) substantially comply with present requirements of the ADA, we have not conducted a comprehensive audit or investigation of all of our properties to determine our compliance, and one or more properties may not be fully compliant with the ADA.

In March 2012, a substantial number of changes to the Accessibility Guidelines under the ADA took effect. The new guidelines have caused us to renovate some of our hotel properties and to incur costs to become fully compliant.

If we or any of our joint ventures are required to make substantial modifications to our wholly-owned or joint venture hotel properties, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders could be adversely affected. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate.

Environmental Regulations

Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on our return from such investment.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by release of hazardous substances and for property contamination. For instance, a person exposed to asbestos while working at or staying in a hotel may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental issues restrict the use of a property or place conditions on various activities. One example is laws that require a business using chemicals to manage them carefully and to notify local officials if regulated spills occur.

Although it is our policy to require an acceptable Phase I environmental survey for all real property in which we invest prior to our investment, such surveys are limited in scope. As a result, there can be no assurance that a Phase I environmental survey will uncover any or all hazardous or toxic substances on a property prior to our investment in that property. We cannot assure you that:

- there are not existing environmental liabilities related to our properties of which we are not aware;
- future laws, ordinances or regulations will not impose material environmental liability; or
- the current environmental condition of a hotel will not be affected by the condition of properties in the vicinity of the hotel (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

Tax Status

We elected to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ended December 31, 2010 under the Internal Revenue Code of 1986, as amended (the "Code"). Our qualification as a REIT depends upon our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our shares of beneficial interest. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code and that our current and intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT for federal income tax purposes.

As a REIT, we generally will not be subject to federal income tax on our REIT taxable income that we distribute currently to our shareholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If we fail to qualify for taxation as a REIT in any taxable year and do not qualify for certain statutory relief provisions,

our income for that year will be taxed at regular corporate rates, and we will be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and assets and to federal income and excise taxes on our undistributed income. Additionally, any income earned by our TRS Lessees will be fully subject to federal, state and local corporate income tax.

Hotel Management Agreements

The management agreements with Concord have an initial ten-year term that expire on February 28, 2017 and will renew automatically for successive one-year terms unless terminated by the TRS lessee or the manager by written notice to the other party no later than 90 days prior to the then current term's expiration date. The management agreements may be terminated for cause, including the failure of the managed hotel operating performance to meet specified levels. If the Company were to terminate the management agreements during the first nine years of the initial term other than for breach or default by the manager, the Company would be responsible for paying termination fees to the manager.

The management agreements with IHM have an initial term of five years and may be renewed for two five-year periods at IHM's option. The IHM management agreements provide for early termination at the Company's option upon sale of any IHM-managed hotel for no termination fee, with six months advance notice. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels.

Terms of our management agreements for our 34 wholly owned hotels are as follows:

<u>Property</u>	<u>Management Company</u>	<u>Base Management Fee</u>	<u>Monthly Accounting Fee</u>	<u>Monthly Revenue Management Fee</u>	<u>Incentive Management Fee</u>
Courtyard Altoona	Concord	4.0%	1,211	—	—
Springhill Suites Washington	Concord	4.0%	991	—	—
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Minneapolis-Mall of America	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Nashville-Brentwood	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Dallas-Market Center	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Hartford-Farmington	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Orlando-Maitland	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Carlsbad (North San Diego County)	IHM	3.0%	1,000	—	1.0%
Hampton Inn & Suites Houston-Medical Center	IHM	3.0%	1,000	—	1.0%
Residence Inn Long Island Holtsville	IHM	3.0%	1,000	—	1.0%
Residence Inn White Plains	IHM	3.0%	1,000	—	1.0%
Residence Inn New Rochelle	IHM	3.0%	1,000	—	1.0%
Residence Inn Garden Grove	IHM	2.5%	1,000	—	1.0%
Residence Inn Mission Valley	IHM	2.5%	1,000	—	1.0%
Homewood Suites by Hilton San Antonio River Walk	IHM	2.5%	1,000	—	1.0%
Residence Inn Washington DC	IHM	2.5%	1,000	—	1.0%
Residence Inn Tysons Corner	IHM	2.5%	1,000	—	1.0%
Hampton Inn Portland Downtown	IHM	3.0%	1,000	550	1.0%
Courtyard Houston	IHM	3.0%	1,000	550	1.0%
Hyatt Place Pittsburgh North Shore	IHM	3.0%	1,500	1,000	1.0%
Hampton Inn Exeter	IHM	3.0%	1,200	1,000	1.0%
Hilton Garden Inn Denver Tech	IHM	3.0%	1,500	1,000	1.0%
Residence Inn Bellevue	IHM	3.0%	1,200	1,000	1.0%
Springhill Suites Savannah	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Silicon Valley I	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Silicon Valley II	IHM	3.0%	1,200	1,000	1.0%
Residence Inn San Mateo	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Mountain View	IHM	3.0%	1,200	1,000	1.0%
Hyatt Place Cherry Creek	IHM	3.0%	1,500	1,000	1.0%
Courtyard Addison	IHM	3.0%	1,500	1,000	1.0%
Courtyard West University Houston	IHM	3.0%	1,500	1,000	1.0%
Residence Inn West University Houston	IHM	3.0%	1,200	1,000	1.0%
Hilton Garden Inn Burlington	IHM	3.0%	1,500	1,000	1.0%

Base management fees are calculated as a percentage of the hotel's gross revenue. If certain financial thresholds are met or exceeded, an incentive management fee is calculated as 10% of the hotel's net operating income less fixed costs, base management fees and a specified return threshold. The incentive management fee is capped at 1% of gross hotel revenues for the applicable calculation.

Management fees totaled approximately \$6.1 million, \$3.8 million and \$2.9 million, respectively, for the years ended December 31, 2014, 2013 and 2012. Incentive management fees paid to IHM for the years ended December 31, 2014, 2013 and 2012 were \$0.2 million, \$0.1 million and \$16.0 thousand, respectively. There have been no incentive management fees paid to Concord.

Hotel Franchise Agreements

The fees associated with the franchise agreements are calculated on the specified percentage of the hotel's gross room revenue. Terms of the Company's franchise agreements for its 34 wholly owned hotels as of December 31, 2014 are as follows:

<u>Property</u>	<u>Franchise Company</u>	<u>Franchise/ Royalty Fee</u>	<u>Marketing/ Program Fee</u>	<u>Expiration</u>
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	Promus Hotels, Inc	4%	4%	2025
Homewood Suites by Hilton Minneapolis-Mall of America	Promus Hotels, Inc	4%	4%	2025
Homewood Suites by Hilton Nashville-Brentwood	Promus Hotels, Inc	4%	4%	2025
Homewood Suites by Hilton Dallas-Market Center	Promus Hotels, Inc	4%	4%	2025
Homewood Suites by Hilton Hartford-Farmington	Promus Hotels, Inc	4%	4%	2025
Homewood Suites by Hilton Orlando-Maitland	Promus Hotels, Inc	4%	4%	2025
Homewood Suites by Hilton Carlsbad (North San Diego County)	Promus Hotels, Inc	4%	4%	2028
Hampton Inn & Suites Houston-Medical Center	Hampton Inns Franchise LLC	5%	4%	2020
Courtyard Altoona	Marriott International, Inc	5.5%	2%	2030
Springhill Suites Washington	Marriott International, Inc	5%	2.5%	2030
Residence Inn Long Island Holtsville	Marriott International, Inc	5.5%	2.5%	2025
Residence Inn White Plains	Marriott International, Inc	5.5%	2.5%	2030
Residence Inn New Rochelle	Marriott International, Inc	5.5%	2.5%	2030
Residence Inn Garden Grove	Marriott International, Inc	5%	2.5%	2031
Residence Inn Mission Valley	Marriott International, Inc	5%	2.5%	2031
Homewood Suites by Hilton San Antonio River Walk	Promus Hotels, Inc	4%	4%	2026
Residence Inn Washington DC	Marriott International, Inc	5.5%	2.5%	2033
Residence Inn Tysons Corner	Marriott International, Inc	5%	2.5%	2031
Hampton Inn Portland Downtown	Hampton Inns Franchise LLC	6%	4%	2032
Courtyard Houston	Marriott International, Inc	5.5%	2%	2030
Hyatt Place Pittsburgh North Shore	Hyatt Hotels, LLC	5%	3.5%	2030
Hampton Inn Exeter	Hampton Inns Franchise LLC	6%	4%	2031
Hilton Garden Inn Denver Tech	Hilton Garden Inns Franchise LLC	4.3%	5.5%	2028
Residence Inn Bellevue	Marriott International, Inc	5.5%	2.5%	2033
Springhill Suites Savannah	Marriott International, Inc	5%	2.5%	2033
Residence Inn Silicon Valley I	Marriott International, Inc	5.5%	2.5%	2029
Residence Inn Silicon Valley II	Marriott International, Inc	5.5%	2.5%	2029
Residence Inn San Mateo	Marriott International, Inc	5.5%	2.5%	2029
Residence Inn Mountain View	Marriott International, Inc	5.5%	2.5%	2029
Hyatt Place Cherry Creek	Hyatt Hotels, LLC	3-5%	3.5%	2034
Courtyard Addison	Marriott International, Inc	5.5%	2%	2029
Courtyard West University Houston	Marriott International, Inc	5.5%	2%	2029
Residence Inn West University Houston	Marriott International, Inc	6%	2%	2024
Hilton Garden Inn Burlington	Hilton Garden Inns Franchise LLC	5.5%	4.3%	2029

Franchise fees totaled approximately \$15.1 million, \$9.4 million \$7.5 million, respectively, for the years ended December 31, 2014, 2013 and 2012.

Ground Leases

The Altoona hotel is subject to a ground lease with an expiration date of April 30, 2029 with an extension option by the Company of up to 12 additional terms of five years each. Monthly payments are determined by the quarterly average room occupancy of the hotel. Rent is equal to approximately \$7,000 per month when monthly occupancy is less than 85% and can increase up to approximately \$20,000 per month if occupancy is 100%, with minimum rent increased on an annual basis by two and one-half percent (2.5%).

At the New Rochelle Residence Inn, there is an air rights lease and garage lease that each expires on December 1, 2104. The lease agreements with the City of New Rochelle cover the space above the parking garage that is occupied by the hotel as well as 128 parking spaces in a parking garage that is attached to the hotel. The annual base rent for the garage lease is the hotel’s proportionate share of the city’s adopted budget for the operations, management and maintenance of the garage and established reserves to fund for the cost of capital repairs.

Future minimum rental payments under the terms of all non-cancellable operating ground leases under which the Company is the lessee are expensed on a straight-line basis regardless of when payments are due. The following is a schedule of the minimum future obligation payments required under the ground, air rights and garages leases for the next five years and thereafter as of December 31, 2014 (in thousands):

	<u>Amount</u>
2015	\$ 210
2016	212
2017	214
2018	217
2019	219
Thereafter	<u>11,009</u>
Total	<u>\$12,081</u>

Employees

As of March 16, 2015, we had 45 employees, 37 of which are shared with or allocated to the NewINK JV, Inland JV and an entity which is 2.5% owned by Mr. Fisher. All persons employed in the day-to-day operations of our hotels are employees of the management companies engaged by our TRS Lessees to operate such hotels. None of our employees is represented by a collective bargaining agreement, however, certain employees of IHM are represented under a collective bargaining agreement.

Available Information

Our Internet website is www.chathamlodgingtrust.com. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports on Forms 3,4 and 5 and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). In addition, our website includes corporate governance information, including the charters for committees of our Board of Trustees, our Corporate Governance Guidelines, Conflict of Interest Policy and our Code of Business Conduct. This information is available in print to any shareholder who requests it by writing to Investor Relations, Chatham Lodging Trust, 50 Coconut Row, Suite 211, Palm Beach, FL 33480. The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings that we make with the SEC.

Item 1A. Risk Factors

Our business faces many risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risk factors actually occurs, our business, financial condition or results of operations could suffer, our ability to make cash distributions to our shareholders could be impaired and the trading price of our common shares could decline. You should know that many of the risks described may apply to more than just the subsection in which we grouped them for the purpose of this presentation.

Risks Related to Our Business

Our investment policies are subject to revision from time to time at our Board of Trustees' discretion, which could diminish shareholder returns below expectations.

Our investment policies may be amended or revised from time to time at the discretion of our Board of Trustees, without a vote of our shareholders. Such discretion could result in investments that may not yield returns consistent with investors' expectations.

We depend on the efforts and expertise of our key executive officers whose continued service is not guaranteed.

We depend on the efforts and expertise of our chief executive officer, as well as our other senior executives, to execute our business strategy. The loss of their services, and our inability to find suitable replacements, could have an adverse effect on our business.

If we are unable to successfully manage our growth, our operating results and financial condition could be adversely affected.

Our ability to grow our business depends upon our senior executive officers' business contacts and their ability to successfully hire, train, supervise and manage additional personnel. We may not be able to hire and train sufficient personnel or develop management, information and operating systems suitable for our expected growth. If we are unable to manage any future growth effectively, our operating results and financial condition could be adversely affected.

Our future growth depends on obtaining new financing and if we cannot secure financing in the future, our growth will be limited.

The success of our growth strategy depends on access to capital through use of excess cash flow, borrowings or subsequent issuances of common shares or other securities. Acquisitions of new hotel properties will require significant additional capital and existing hotels (including those owned through joint ventures) require periodic capital improvement initiatives to remain competitive. We may not be able to fund acquisitions or capital improvements solely from cash provided from our operating activities because we must distribute at least 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gains) each year to satisfy the requirements for qualification as a REIT for federal income tax purposes. As a result, our ability to fund capital expenditures for acquisitions through retained earnings is very limited. Our ability to grow through acquisitions of hotels will be limited if we cannot obtain satisfactory debt or equity financing, which will depend on capital markets conditions. We cannot assure you that we will be able to obtain additional equity or debt financing or that we will be able to obtain such financing on favorable terms.

We may be unable to invest proceeds from offerings of our securities.

We will have broad authority to invest the net proceeds of any offering of our securities in any real estate investments that we may identify in the future, and we may use those proceeds to make investments with which you may not agree. In addition, our investment policies may be amended or revised from time to time at the discretion of our Board of Trustees, without a vote of our shareholders. These factors will increase the

uncertainty, and thus the risk, of investing in our common shares. Our failure to apply the net proceeds of any offering effectively or to find suitable hotel properties to acquire in a timely manner or on acceptable terms could result in returns that are substantially below expectations or result in losses.

Until appropriate investments can be identified, we may invest the net proceeds of any offering of our securities in interest-bearing short-term securities or money-market accounts that are consistent with our intention to qualify as a REIT. These investments are expected to provide a lower net return than we seek to achieve from our hotel properties. We may be unable to invest the net proceeds on acceptable terms, or at all, which could delay shareholders from receiving an appropriate return on their investment. We cannot assure you that we will be able to identify properties that meet our investment criteria, that we will successfully consummate any investment opportunities we identify, or that investments we may make will generate income or cash flow.

We must rely on third-party management companies to operate our hotels in order to qualify as a REIT under the Code and, as a result, we have less control than if we were operating the hotels directly.

In order for us to qualify as a REIT under the Code, third parties must operate our hotels. We lease each of our hotels to our TRS Lessees. The TRS Lessees, in turn, have entered into management agreements with third party management companies to operate our hotels. While we expect to have some input on operating decisions for those hotels leased by our TRS Lessees and operated under management agreements, we have less control than if we were managing the hotels ourselves. Even if we believe that our hotels are not being operated efficiently, we may not be able to require an operator to change the way it operates our hotels. If this is the case, we may decide to terminate the management agreement and potentially incur costs associated with the termination. Additionally, Jeffrey H. Fisher, our chief executive officer, controls IHM, a hotel management company that manages 32 of our hotels, all of the 47 hotels owned by the NewINK JV, 34 of the hotels owned by the Inland JV, as of December 31, 2014, and may manage additional hotels that we acquire in the future. See—“There are conflicts of interest between us and affiliates owned by our Chief Executive Officer” below.

Our management agreements could adversely affect the sale or financing of hotel properties and, as a result, our operating results and ability to make distributions to our shareholders could suffer.

While we would prefer to enter into flexible management contracts that will provide us with the ability to replace hotel managers on relatively short notice and with limited cost, we may enter into, or acquire properties subject to, management contracts that contain more restrictive covenants. For example, the terms of some management agreements may restrict our ability to sell a property unless the purchaser is not a competitor of the manager and assumes the related management agreement and meets specified other conditions. Also, the terms of a long-term management agreement encumbering our properties may reduce the value of the property. If we enter into or acquire properties subject to any such management agreements, we may be precluded from taking actions that would otherwise be in our best interest or could cause us to incur substantial expense, which could adversely affect our operating results and our ability to make distributions to shareholders. Moreover, the management agreements that we use in connection with hotels managed by IHM were not negotiated on an arm’s-length basis due to Mr. Fisher’s control of IHM and therefore may not contain terms as favorable to us as we could obtain in an arm’s-length transaction with a third party. See “There are conflicts of interest between us and affiliates owned by our Chief Executive Officer” below.

Our franchisors could cause us to expend additional funds on upgraded operating standards, which may reduce cash available for distribution to shareholders.

Our hotels operate under franchise agreements, and we may become subject to the risks that are found in concentrating our hotel properties in one or several franchise brands. Our hotel operators must comply with operating standards and terms and conditions imposed by the franchisors of the hotel brands under which our hotels operate. Pursuant to certain of the franchise agreements, certain upgrades are required approximately every six years, and the franchisors may also impose upgraded or new brand standards, such as substantially upgrading the bedding, enhancing the complimentary breakfast or increasing the value of guest awards under its ‘frequent

guest' program, which can add substantial expense for the hotel. The franchisors also may require us to make certain capital improvements to maintain the hotel in accordance with system standards, the cost of which can be substantial and may reduce cash available for distribution to our shareholders.

Our franchisors may cancel or fail to renew our existing franchise licenses, which could adversely affect our operating results and our ability to make distributions to shareholders.

Our franchisors periodically inspect our hotels to confirm adherence to the franchisors' operating standards. The failure of a hotel to maintain standards could result in the loss or cancellation of a franchise license. We rely on our hotel managers to conform to operational standards. In addition, when the term of a franchise expires, the franchisor has no obligation to issue a new franchise. The loss of a franchise could have a material adverse effect on the operations or the underlying value of the affected hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. The loss of a franchise or adverse developments with respect to a franchise brand under which our hotels operate could also have a material adverse effect on our financial condition, results of operations and cash available for distribution to shareholders.

Fluctuations in our financial performance, capital expenditure requirements and excess cash flow could adversely affect our ability to make and maintain distributions to our shareholders.

As a REIT, we are required to distribute at least 90% of our REIT taxable income each year to our shareholders (determined before the deduction for dividends paid and excluding any net capital gains). In the event of downturns in our operating results and financial performance or unanticipated capital improvements to our hotels (including capital improvements that may be required by franchisors or joint venture partners), we may be unable to declare or pay distributions to our shareholders, or maintain our then-current dividend rate. The timing and amount of distributions are in the sole discretion of our Board of Trustees, which considers, among other factors, our financial performance, debt service obligations and applicable debt covenants (if any), and capital expenditure requirements. We cannot assure you we will generate sufficient cash in order to continue to fund distributions.

Among the factors which could adversely affect our results of operations and distributions to shareholders are reductions in hotel revenues; increases in operating expenses at the hotels leased to our TRS Lessees; increased debt service requirements, including those resulting from higher interest rates on variable rate indebtedness; cash demands from the joint ventures and capital expenditures at our hotels, including capital expenditures required by the franchisors of our hotels. Hotel revenue can decrease for a number of reasons, including increased competition from new hotels and decreased demand for hotel rooms. These factors can reduce both occupancy and room rates at hotels and could directly affect us negatively by:

- reducing the hotel revenue that we recognize with respect to hotels leased to our TRS Lessees; and
- correspondingly reducing the profits (or increasing the loss) of hotels leased to our TRS Lessees. We may be unable to reduce many of our expenses in tandem with revenue declines, (or we may choose not to reduce them for competitive reasons), and certain expenses may increase while our revenue declines.

Future debt service obligations could adversely affect our overall operating results or cash flow and may require us to liquidate our properties, which could adversely affect our ability to make distributions to our shareholders and our share price.

We plan to maintain a prudent capital structure and intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) at a level that will be lower than the level at which we currently operate. A subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this limitation. While we intend to maintain our leverage over the long term at lower levels, our Board of Trustees believes that maintaining higher leverage levels at this stage of the lodging

cycle is appropriate, as interest rates on a historical basis are very attractive. As a result, we may be able to incur substantial additional debt, including secured debt, in the future. Incurring additional debt could subject us to many risks, including the risks that:

- operating cash flow will be insufficient to make required payments of expenses, principal and interest;
- our leverage may increase our vulnerability to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing cash available for distribution to our shareholders, funds available for operations and capital expenditures, future business opportunities or other purposes;
- the terms of any refinancing will not be as favorable as the terms of the debt being refinanced; and
- the terms of our debt may limit our ability to make distributions to our shareholders.

If we violate covenants in our debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all.

If we are unable to repay our debt obligations in the future, we may be forced to refinance debt or dispose of or encumber our assets, which could adversely affect distributions to shareholders.

If we do not have sufficient funds to repay our outstanding debt at maturity or before maturity in the event we breach our debt agreements and our lenders exercise their right to accelerate repayment, we may be required to refinance the debt through additional debt or additional equity financings. Covenants applicable to our existing and future debt could impair our planned investment strategy and, if violated, result in a default. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses. We have placed mortgages on certain of our hotel properties to secure a portion of our credit facility, have assumed mortgages on other hotels we acquired and may place additional mortgages on certain of our hotels to secure other debt. To the extent we cannot meet any future debt service obligations, we will risk losing some or all of our hotel properties that are pledged to secure our obligations to foreclosure.

Interest expense on our debt may limit our cash available to fund our growth strategies and shareholder distributions.

Higher interest rates could increase debt service requirements on debt under our credit facility and any floating rate debt that we incur in the future and could reduce the amounts available for distribution to our shareholders, as well as reduce funds available for our operations, future business opportunities, or other purposes. Interest expense on our credit facility is based on floating interest rates.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations and our ability to make shareholder distributions.

We may obtain in the future one or more forms of interest rate protection — in the form of swap agreements, interest rate cap contracts or similar agreements — to hedge against the possible negative effects of interest rate fluctuations. However, such hedging implies costs and we cannot assure you that any hedging will adequately relieve the adverse effects of interest rate increases or that counterparties under these agreement will honor their obligations thereunder. Furthermore, any such hedging agreements would subject us to the risk of incurring significant non-cash losses on our hedges due to declines in interest rates if our hedges were not considered effective under applicable accounting standards.

Joint venture investments that we make could be adversely affected by our lack of sole decision-making authority, our reliance on joint venture partners' financial condition and disputes between us and our joint venture partners.

We are co-investors with NorthStar in each of the NewINK JV and Inland JV, which own 47 and 48 hotels, respectively. We are co-investors with Cerberus in the Torrance JV, which owns the 248-room Residence Inn by

Marriott in Torrance, CA, and we may invest in additional joint ventures in the future. We may not be in a position to exercise sole decision-making authority regarding the properties owned through the JVs or other joint ventures that we may invest in. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including reliance on our joint venture partners and the possibility that joint venture partners might become bankrupt or fail to fund their share of required capital contributions, thus exposing us to liabilities in excess of our share of the investment. Joint venture partners may have business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner would have full control over the partnership or joint venture. Any disputes that may arise between us and our joint venture partners may result in litigation or arbitration that would increase our expenses and prevent our officers and/or trustees from focusing their time and effort on our business. Consequently, actions by, or disputes with, our joint venture partners might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers.

It may be difficult for us to exit a joint venture after an impasse with our co-venturer.

In our joint ventures, there will be a potential risk of impasse in some joint venture decisions because our approval and the approval of each co-venturer will be required for some decisions. The types of decisions that would require the approval of each co-venturer would be determined under the joint venture agreement between the parties, but those types of decisions are likely to include borrowing above a certain level or disposing of assets. In any joint venture, we may have the right to buy our co-venturer's interest or to sell our own interest on specified terms and conditions in the event of an impasse regarding a sale. However, it is possible that neither party will have the funds necessary to complete such a buy-out. In addition, we may experience difficulty in locating a third-party purchaser for our joint venture interest and in obtaining a favorable sale price for the interest. As a result, it is possible that we may not be able to exit the relationship if an impasse develops. In addition, there is no limitation under our declaration of trust and bylaws as to the amount of funds that we may invest in joint ventures. Accordingly, we may invest a substantial amount of our funds in joint ventures, which ultimately may not be profitable as a result of disagreements with or among our co-venturers.

The Company does not have sole control of the JVs and may be required to contribute additional capital in the event of a capital call.

The Company's ownership interests in the JVs are subject to change in the event that we, NorthStar or Cerberus calls for additional capital contributions to a JV that is necessary for the conduct of business, including contributions to fund costs and expenses related to capital expenditures. NorthStar or Cerberus may also approve certain actions by the JVs in which it participates without the Company's consent, including certain property dispositions conducted at arm's length, certain actions related to the restructuring of the JV's and the removal of the Company as managing member in the event the Company fails to fulfill its material obligations under the joint venture agreement.

Our Operating Partnership acts as guarantor under certain debt obligations of the JVs.

In connection with certain non-recourse mortgage loans on certain of the properties owned by the JVs, our Operating Partnership could be required to repay portions of this indebtedness, up to an amount commensurate with our ownership interests in those JVs, in connection with certain customary non-recourse carve-out provisions such as environmental conditions, misuse of funds and material misrepresentations.

We may from time to time make distributions to our shareholders in the form of our common shares, which could result in shareholders incurring tax liability without receiving sufficient cash to pay such tax.

Although we have no current intention to do so, we may, if possible, in the future distribute taxable dividends that are payable in cash or common shares at the election of each shareholder. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the

extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, shareholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. shareholder sells the common shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common shares. In addition, if a significant number of our shareholders determine to sell common shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common shares.

Our conflict of interest policy may not be successful in eliminating the influence of future conflicts of interest that may arise between us and our trustees, officers and employees.

We have adopted a policy that any transaction, agreement or relationship in which any of our trustees, officers or employees has a direct or indirect pecuniary interest must be approved by a majority of our disinterested trustees. Other than this policy, however, we have not adopted and may not adopt additional formal procedures for the review and approval of conflict of interest transactions generally. As such, our policies and procedures may not be successful in eliminating the influence of conflicts of interest.

There are conflicts of interest between us and affiliates owned by our Chief Executive Officer.

Our chief executive officer, Mr. Fisher, owned 90% of IHM, a hotel management company that manages 32 of our wholly owned hotels, all of the 47 hotels owned by the NewInk JV and 34 of the hotels owned by the Inland JV as of December 31, 2014, and may manage additional hotels that we acquire or own in the future. Because Mr. Fisher is our Chief Executive Officer and controls IHM, conflicts of interest may arise between us and Mr. Fisher as to whether and on what terms new management contracts will be awarded to IHM, whether and on what terms management agreements will be renewed upon expiration of their terms, enforcement of the terms of the management agreements and whether hotels managed by IHM will be sold.

Risks Related to the Lodging Industry

The lodging industry has experienced significant declines in the past and failure of the lodging industry to exhibit improvement may adversely affect our ability to execute our business strategy.

The performance of the lodging industry has historically been closely linked to the performance of the general economy and, specifically, growth in U.S. gross domestic product, or GDP. It is also sensitive to business and personal discretionary spending levels. Declines in corporate budgets and consumer demand due to adverse general economic conditions, risks affecting or reducing travel patterns, lower consumer confidence or adverse political conditions can lower the revenues and profitability of our future hotel properties and therefore the net operating profits of our TRSs.

A substantial part of our business strategy is based on the belief that the lodging markets in which we invest will continue to experience improving economic fundamentals in the future. We cannot predict the extent to which lodging industry fundamentals will continue to improve. In the event conditions in the industry do not continue to improve as we expect, or deteriorate, our ability to execute our business strategy would be adversely affected, which could adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

Our ability to make distributions to our shareholders may be affected by various operating risks common in the lodging industry.

Hotel properties are subject to various operating risks common to the hotel industry, many of which are beyond our control, including:

- competition from other hotel properties in the markets in which we and our joint ventures operate, some of which may have greater marketing and financial resources;

- an over-supply or over-building of hotel properties in the markets in which we and our joint ventures operate, which could adversely affect occupancy rates and revenues;
- dependence on business and commercial travelers and tourism;
- increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- necessity for periodic capital reinvestment to repair and upgrade hotel properties;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- unforeseen events beyond our control, such as terrorist attacks, travel related health concerns including pandemics and epidemics such as H1N1 influenza (swine flu), avian bird flu and SARS, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities, travel related accidents and unusual weather patterns, including natural disasters such as hurricanes, tsunamis or earthquakes;
- disruptions to the operations of our hotels caused by organized labor activities, including strikes, work stoppages or slow-downs;
- adverse effects of a downturn in the economy or in the hotel industry; and
- risk generally associated with the ownership of hotel properties and real estate, as we discuss in detail below.

These factors could reduce the net operating profits of our TRSs and the rental income we receive from our TRS Lessees, which in turn could adversely affect our ability to make distributions to our shareholders.

Competition for acquisitions may reduce the number of properties we can acquire.

We compete for hotel investment opportunities with competitors that may have a different tolerance for risk or have substantially greater financial resources than are available to us. This competition may generally limit the number of hotel properties that we are able to acquire and may also increase the bargaining power of hotel owners seeking to sell, making it more difficult for us to acquire hotel properties on attractive terms, or at all.

Competition for guests may lower our hotels' revenues and profitability.

The upscale extended-stay and mid-price segments of the hotel business are highly competitive. Our hotels and those of our JVs compete on the basis of location, room rates and quality, service levels, reputation, and reservation systems, among many other factors. Competitors may have substantially greater marketing and financial resources than our operators or us. New hotels create new competitors, in some cases without corresponding increases in demand for hotel rooms. The result in some cases may be lower revenue, which would result in lower cash available for distribution to shareholders.

The seasonality of the hotel industry may cause fluctuations in our quarterly revenues that cause us to borrow money to fund distributions to shareholders.

Some hotel properties have business that is seasonal in nature. This seasonality can be expected to cause quarterly fluctuations in revenues. Quarterly earnings may be adversely affected by factors outside our control, including weather conditions and poor economic factors. As a result, we may have to enter into short-term borrowings in order to offset these fluctuations in revenue and to make distributions to shareholders.

The cyclical nature of the lodging industry may cause the return on our investments to be substantially less than we expect.

The lodging industry is cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affects levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry's performance and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. Decline in lodging demand, or a continued growth in lodging supply, could result in returns that are substantially below expectations or result in losses, which could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our shareholders.

Due to our concentration in hotel investments, a downturn in the lodging industry would adversely affect our operations and financial condition.

Our entire business is related to the hotel industry. Therefore, a downturn in the hotel industry, in general, will have a material adverse effect on our revenues, net operating profits and cash available to distribute to shareholders.

The ongoing need for capital expenditures at our hotel properties may adversely affect our financial condition and limit our ability to make distributions to our shareholders.

Hotel properties have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. The franchisors of our hotels and those of our JVs also require periodic capital improvements as a condition of keeping the franchise licenses. In addition, our lenders require us to set aside amounts for capital improvements to our hotel properties. These capital improvements may give rise to the following risks:

- possible environmental problems;
- construction cost overruns and delays;
- possibility that revenues will be reduced temporarily while rooms or restaurants offered are out of service due to capital improvement projects;
- a possible shortage of available cash to fund capital improvements and the related possibility that financing for these capital improvements may not be available on affordable terms;
- uncertainties as to market demand or a loss of market demand after capital improvements have begun; and
- disputes with franchisors/managers regarding compliance with relevant management/franchise agreements.

The costs of all these capital improvements could adversely affect our financial condition and amounts available for distribution to our shareholders.

The increasing use of Internet travel intermediaries by consumers may adversely affect our profitability.

Some of our hotel rooms are booked through Internet travel intermediaries. As Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and our management companies. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality (such as "three-star downtown hotel") at the expense of brand identification. These agencies hope that consumers will eventually develop brand loyalties to their reservations system rather than to the brands under

which our properties are franchised. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability may be adversely affected.

We and our hotel managers rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We and our hotel managers rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, reservations, billing and operating data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as individually identifiable information, including information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations.

Future terrorist attacks or changes in terror alert levels could adversely affect travel and hotel demand.

Previous terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries over the past several years, often disproportionately to the effect on the overall economy. The impact that terrorist attacks in the U.S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined but any such attacks or the threat of such attacks could have a material adverse effect on our business, our ability to finance our business, our ability to insure our properties and our results of operations and financial condition.

Uninsured and underinsured losses could adversely affect our operating results and our ability to make distributions to our shareholders.

We maintain comprehensive insurance on each of our hotel properties, including liability, terrorism, fire and extended coverage, of the type and amount customarily obtained for or by hotel property owners. There can be no assurance that such coverage will continue to be available at reasonable rates. Various types of catastrophic losses, like earthquakes and floods and losses from foreign terrorist activities such as those on September 11, 2001 or losses from domestic terrorist activities such as the Oklahoma City bombing may not be insurable or may not be insurable on reasonable economic terms. Lenders may require such insurance and failure to obtain such insurance could constitute a default under loan agreements. Depending on our access to capital, liquidity and the value of the properties securing the affected loan in relation to the balance of the loan, a default could have a material adverse effect on our results of operations and ability to obtain future financing.

In the event of a substantial loss, insurance coverage may not be sufficient to cover the full current market value or replacement cost of the lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we invested in a hotel property, as well as the anticipated future revenue from that particular hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed property.

Noncompliance with environmental laws and governmental regulations could adversely affect our operating results and our ability to make distributions to shareholders.

Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on our return from such investment.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by release of hazardous substances and for property contamination. For instance, a person exposed to asbestos while working at or staying in a hotel may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental issues restrict the use of a property or place conditions on various activities. One example is laws that require a business using chemicals to manage them carefully and to notify local officials if regulated spills occur.

Although it is our policy to require an acceptable Phase I environmental survey for all real property in which we invest prior to our investment, such surveys are limited in scope. As a result, there can be no assurance that a Phase I environmental survey will uncover any or all hazardous or toxic substances on a property prior to our investment in that property. We cannot assure you:

- There are no existing liabilities related to our properties of which we are not aware;
- that future laws, ordinances or regulations will not impose material environmental liability; or
- that the current environmental condition of a hotel will not be affected by the condition of properties in the vicinity of the hotel (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

Compliance with the ADA and other changes in governmental rules and regulations could substantially increase our cost of doing business and adversely affect our operating results and our ability to make distributions to our shareholders.

Our hotel properties are subject to the ADA. Under the ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. Although we intend to continue to acquire assets that are substantially in compliance with the ADA, we may incur additional costs of complying with the ADA at the time of acquisition and from time-to-time in the future to stay in compliance with any changes in the ADA. A number of additional federal, state and local laws exist that also may require modifications to our investments, or restrict certain further renovations thereof, with respect to access thereto by disabled persons. Additional legislation may impose further burdens or restrictions on owners with respect to access by disabled persons. If we were required to make substantial modifications at our properties to comply with the ADA or other changes in governmental rules and regulations, our ability to make expected distributions to our shareholders could be adversely affected.

In March 2012, a substantial number of changes to the Accessibility Guidelines under the ADA took effect. The new guidelines caused some of our hotel properties to incur costs to become fully compliant.

If we are required to make substantial modifications to our hotel properties, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders could be adversely affected. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate.

General Risks Related to Real Estate Industry

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our hotel properties and adversely affect our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more hotel properties in our portfolio in response to changing economic, financial and investment conditions may be limited. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism.

We may seek to sell hotel properties owned by us or any of the JVs in the future. There can be no assurance that we will be able to sell any hotel property on acceptable terms.

If financing for hotel properties is not available or is not available on attractive terms, it will adversely impact the ability of third parties to buy our hotels. As a result, we or our JVs may hold hotel properties for a longer period than we would otherwise desire and may sell hotels at a loss.

We may be required to expend funds to correct defects or to make improvements before a hotel property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a hotel property, we may agree to lock-out provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could have a material adverse effect on our operating results and financial condition, as well as our ability to pay distributions to shareholders.

Increases in our property taxes would adversely affect our ability to make distributions to our shareholders.

Hotel properties are subject to real and personal property taxes. These taxes may increase as tax rates change and as the properties are assessed or reassessed by taxing authorities. In particular, our property taxes could increase following our hotel purchases as the acquired hotels are reassessed. If property taxes increase, our financial condition, results of operations and our ability to make distributions to our shareholders could be materially and adversely affected and the market price of our common shares could decline.

Our hotel properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of mold to which hotel guests or employees could be exposed at any of the properties in which we own an interest could require us to undertake a costly remediation program to contain or remove the mold from the affected property, which could be costly. In addition, exposure to mold by guests or employees, management company employees or others could expose us to liability if property damage or health concerns arise.

Risks Related to Our Organization and Structure

Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit your recourse in the event of actions not in your best interests.

Under Maryland law generally, a trustee is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, trustees are presumed to have acted with this standard of care. In addition, our declaration of trust limits the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our bylaws obligate us to indemnify our trustees and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each trustee or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to advance the defense costs incurred by our trustees and officers. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist absent the current provisions in our declaration of trust and bylaws or that might exist with other companies.

Provisions of Maryland law may limit the ability of a third party to acquire control of our Company and may result in entrenchment of management and diminish the value of our common shares.

Certain provisions of the Maryland General Corporation Law (“MGCL”) applicable to Maryland real estate investment trusts may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- “*Business combination*” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested shareholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares) or an affiliate of any interested shareholder for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes special appraisal rights and special shareholder voting requirements on these combinations; and
- “*Control share*” provisions that provide that our “control shares” (defined as shares which, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board of Trustees, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to implement certain takeover defenses, including, but not limited to, the adoption of a classified board, which we had in place as of December 31, 2014. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under the circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then current market price.

Provisions of our declaration of trust may limit the ability of a third party to acquire control of our Company and may result in entrenchment of management and diminish the value of our common shares.

Our declaration of trust authorizes our Board of Trustees to issue up to 500,000,000 common shares and up to 100,000,000 preferred shares. In addition, our Board of Trustees may, without shareholder approval, amend our declaration of trust to increase the aggregate number of our shares or the number of shares of any class or series that we have the authority to issue and to classify or reclassify any unissued common shares or preferred shares and to set the preferences, rights and other terms of the classified or reclassified shares. As a result, our Board of Trustees may authorize the issuance of additional shares or establish a series of common or preferred shares that may have the effect of delaying or preventing a change in control of our company, including transactions at a premium over the market price of our shares, even if shareholders believe that a change of control is in their interest.

Failure to make required distributions would subject us to tax.

In order for federal corporate income tax not to apply to earnings that we distribute, each year we must distribute to our shareholders at least 90% of our REIT taxable income, determined before the deductions for dividends paid and excluding any net capital gain. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under the Code. Our only source of funds to make these distributions comes from distributions that we will receive from our operating partnership. Accordingly, we may be required to borrow money, sell assets or make taxable distributions of our capital shares or debt securities, to enable us to pay out enough of our REIT taxable income to satisfy the distribution requirement and to avoid federal corporate income tax and the 4% nondeductible excise tax in a particular year.

Failure to qualify as a REIT, or failure to remain qualified as a REIT, would subject us to federal income tax and potentially to state and local taxes.

We elected to be taxed as a REIT for federal income tax purposes. However, qualification as a REIT involves the application of highly technical and complex provisions of the Code, for which only a limited number of judicial and administrative interpretations exist. Even an inadvertent or technical mistake could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis.

Moreover, new tax legislation, administrative guidance or court decisions, in each instance potentially applicable with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and distributions to shareholders would not be deductible by us in computing our taxable income. We may also be subject to state and local taxes if we fail to qualify as a REIT. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which in turn could have an adverse impact on the value of our shares of beneficial interest. If, for any reason, we failed to qualify as a REIT and we were not entitled to relief under certain Code provisions, we would be unable to elect REIT status for the four taxable years following the year during which we ceased to so qualify, which would negatively impact the value of our common shares.

Our TRS Lessee structure subjects us to the risk of increased hotel operating expenses that could adversely affect our operating results and our ability to make distributions to shareholders.

Our leases with our TRS Lessees require our TRS Lessees to pay rent based in part on revenues from our hotels. Our operating risks include decreases in hotel revenues and increases in hotel operating expenses, which

would adversely affect our TRS Lessees' ability to pay rent due under the leases, including but not limited to the increases in wage and benefit costs, repair and maintenance expenses, energy costs, property taxes, insurance costs and other operating expenses.

Increases in these operating expenses can have a significant adverse impact on our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

Our TRS structure increases our overall tax liability.

Our TRS Lessees are subject to federal, state and local income tax on their taxable income, which consists of the revenues from the hotel properties leased by our TRS Lessees, net of the operating expenses for such hotel properties and rent payments to us. Accordingly, although our ownership of our TRS Lessees allows us to participate in the operating income from our hotel properties in addition to receiving rent, that operating income is fully subject to income tax. The after-tax net income of our TRS Lessees is available for distribution to us.

Our ownership of TRSs is limited and our transactions with our TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from hotels that are operated by eligible independent contractors pursuant to hotel management agreements. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT's gross assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRSs are subject to federal, foreign, state and local income tax on their taxable income, and their after-tax net income is available for distribution to us but is not required to be distributed to us. We believe that the aggregate value of the stock and securities of our TRSs is and will continue to be less than 25% of the value of our total gross assets (including our TRS stock and securities). Furthermore, we will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will scrutinize all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% limitation discussed above or to avoid application of the 100% excise tax discussed above.

If our leases with our TRS Lessees are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

To qualify as a REIT, we are required to satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRS Lessees, which should constitute substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. We have structured our leases, and intend to structure any future leases, so that the leases will be respected as true leases for federal income tax purposes, but there can be no assurance that the IRS will agree with this characterization, not challenge this treatment or that a court would not sustain such a challenge. If the leases were not respected as true leases for federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs and likely would fail to qualify for REIT status.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to “qualified dividend income” payable to U.S. shareholders taxed at individual rates is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

If our hotel managers do not qualify as “eligible independent contractors,” we would fail to qualify as a REIT.

Rent paid by a lessee that is a “related party tenant” of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. We lease substantially all of our hotels to our TRS Lessees. A TRS Lessee will not be treated as a “related party tenant,” and will not be treated as directly operating a lodging facility to the extent the TRS Lessee leases properties from us that are managed by an “eligible independent contractor.” In addition, our TRS holding companies will fail to qualify as “taxable REIT subsidiaries” if they lease or own a lodging facility that is not managed by an “eligible independent contractor.”

If our hotel managers do not qualify as “eligible independent contractors,” we would fail to qualify as a REIT. Each of the hotel management companies that enters into a management contract with our TRS Lessees must qualify as an “eligible independent contractor” under the REIT rules in order for the rent paid to us by our TRS Lessees to be qualifying income for our REIT income test requirements and for our TRS holding companies to qualify as “taxable REIT subsidiaries”. Among other requirements, in order to qualify as an eligible independent contractor a manager must not own more than 35% of our outstanding shares (by value) and no person or group of persons can own more than 35% of our outstanding shares and the ownership interests of the manager, taking into account only owners of more than 5% of our shares and, with respect to ownership interests in such managers that are publicly traded, only holders of more than 5% of such ownership interests. Complex ownership attribution rules apply for purposes of these 35% thresholds. Although we intend to monitor ownership of our shares by our property managers and their owners, there can be no assurance that these ownership levels will not be exceeded.

Our ownership limitations may restrict or prevent you from engaging in certain transfers of our common shares.

In order to satisfy the requirements for REIT qualification, no more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year. To assist us in satisfying the requirements for our REIT qualification, our declaration of trust contains an ownership limit on each class and series of our shares. Under applicable constructive ownership rules, any common shares owned by certain affiliated owners generally will be added together for purposes of the common share ownership limit, and any shares of a given class or series of preferred shares owned by certain affiliated owners generally will be added together for purposes of the ownership limit on such class or series.

If anyone transfers shares in a way that would violate the ownership limit, or prevent us from qualifying as a REIT under the federal income tax laws, those shares instead will be transferred to a trust for the benefit of a charitable beneficiary and will be either redeemed by us or sold to a person whose ownership of the shares will not violate the ownership limit. If this transfer to a trust fails to prevent such a violation or our continued qualification as a REIT, then the initial intended transfer shall be null and void from the outset. The intended transferee of those shares will be deemed never to have owned the shares. Anyone who acquires shares in violation of the ownership limit or the other restrictions on transfer in our declaration of trust bears the risk of suffering a financial loss when the shares are redeemed or sold if the market price of our shares falls between the date of purchase and the date of redemption or sale.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute “gross income” for purposes of the 75% or 95% gross income tests applicable to REITs. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRSs.

The ability of our Board of Trustees to revoke our REIT qualification without shareholder approval may cause adverse consequences to our shareholders.

Our declaration of trust provides that our Board of Trustees may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our shareholders, which may have adverse consequences on our total return to our shareholders.

The ability of our Board of Trustees to change our major policies may not be in our shareholders’ interest.

Our Board of Trustees determines our major policies, including policies and guidelines relating to our acquisitions, leverage, financing, growth, operations and distributions to shareholders and our continued qualification as a REIT. Our board may amend or revise these and other policies and guidelines from time to time without the vote or consent of our shareholders. Accordingly, our shareholders will have limited control over changes in our policies and those changes could adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

If we fail to maintain an effective system of internal controls, we may not be able to accurately determine our financial results or prevent fraud. As a result, our investors could lose confidence in our reported financial information, which could harm our business and the market value of our common shares.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We may in the future discover areas of our internal controls that need improvement. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent auditors annually issue their opinion on our internal control over financial reporting. As we grow our business and acquire new hotel properties, directly or through joint ventures, with existing internal controls that may not be consistent with our own, our internal controls will become more complex, and we will require significantly more resources to ensure our internal controls remain effective. If we or our independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market value of our common shares. In particular, we will need to establish, or cause our third party hotel managers to establish, controls and procedures to ensure that hotel revenues and expenses are properly recorded at our hotels. The existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiencies and management may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner. Any such failure could cause investors to lose confidence in our reported financial information and adversely affect the market value of our common shares or limit our access to the capital markets and other sources of liquidity.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our shareholders and the ownership of our shares of beneficial interest. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our gross assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities that constitute qualified real estate assets and securities of our TRSs) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our gross assets (other than government securities, securities that constitute qualified real estate assets and securities of our TRSs) can consist of the securities of any one issuer, and no more than 25% of the value of our total gross assets can be represented by the securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

We have not established a minimum distribution payment level and we may be unable to generate sufficient cash flows from our operations to make distributions to our shareholders at any time in the future.

We are generally required to distribute to our shareholders at least 90% of our REIT taxable income each year for us to qualify as a REIT under the Code, which requirement we currently intend to satisfy. To the extent we satisfy the 90% distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. We have not established a minimum distribution payment level, and our ability to make distributions to our shareholders may be adversely affected by the risk factors described in this Form 10-K. Subject to satisfying the requirements for REIT qualification, we intend over time to make regular distributions to our shareholders. Our Board of Trustees has the sole discretion to determine the timing, form and amount of any distributions to our shareholders. Our Board of Trustees makes determinations regarding distributions based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, satisfaction of the requirements for REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such other matters as our Board of Trustees may deem relevant from time to time. Among the factors that could impair our ability to make distributions to our shareholders are:

- our inability to realize attractive returns on our investments;
- unanticipated expenses that reduce our cash flow or non-cash earnings;
- decreases in the value of the underlying assets; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that we will be able to continue to make distributions to our shareholders or that the level of any distributions we do make to our shareholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect the market price of our common shares. Distributions could be dilutive to our financial results and may constitute a return of capital to our investors, which would have the effect of reducing each shareholder's basis in its common shares. We also could use borrowed funds or proceeds from the sale of assets to fund distributions.

In addition, distributions that we make to our shareholders are generally taxable to our shareholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a shareholder's investment in our common shares.

Our senior secured revolving credit facility prohibits us from repurchasing our common shares and may limit our ability to pay dividends on common shares.

Our senior secured revolving credit facility, which matures on November 5, 2016, prohibits us from repurchasing any common shares during the term of the senior secured revolving credit facility. Under our senior secured revolving credit facility, our distributions may not exceed the greater of (i) 95% of adjusted funds from operations (as defined in our senior secured revolving credit facility) for the preceding four-quarter period or (ii) the amount required for us to qualify and maintain our status as a REIT. As a result, if we do not generate sufficient adjusted funds from operations during the four quarters preceding any common share dividend payment date, we would not be able to pay dividends to our common shareholders consistent with our past practice without causing a default under our senior secured revolving credit facility. In the event of a default under our senior secured revolving credit facility, we would be unable to borrow under our senior secured revolving credit facility and any amounts we have borrowed thereunder could become due and payable.

The market price of our equity securities may vary substantially, which may limit your ability to liquidate your investment.

The trading prices of equity securities issued by REITs have historically been affected by changes in market interest rates. One of the factors that may influence the price of our shares in public trading markets is the annual yield from distributions on our common or preferred shares as compared to yields on other financial instruments. An increase in market interest rates, or a decrease in our distributions to shareholders, may lead prospective purchasers of our shares to demand a higher annual yield, which could reduce the market price of our equity securities.

Other factors that could affect the market price of our equity securities include the following:

- actual or anticipated variations in our quarterly results of operations;
- changes in market valuations of companies in the hotel or real estate industries;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- fluctuations in stock market prices and volumes;
- issuances of common shares or other securities in the future;
- the addition or departure of key personnel; and
- announcements by us or our competitors of acquisitions, investments or strategic alliances or changes thereto.

Because we have a smaller equity market capitalization compared to some other hotel REITs and our common shares may trade in low volumes, the stock market price of our common shares may be susceptible to fluctuation to a greater extent than companies with larger market capitalization. As a result, your ability to liquidate your investment in our company may be limited.

The number of shares available for future sale could adversely affect the market price of our common shares.

We cannot predict the effect, if any, of future sales of common shares, or the availability of common shares for future sale, on the market price of our common shares. Sales of substantial amounts of common shares (including shares issued to our trustees and officers), or the perception that these sales could occur, may adversely affect prevailing market prices for our common shares.

We also may issue from time to time additional common shares or limited partnership interests in our operating partnership in connection with the acquisition of properties and we may grant demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of our common shares or the perception that these sales could occur may adversely affect the prevailing market price for our common shares or may impair our ability to raise capital through a sale of additional equity securities. Our Equity Incentive Plan provides for grants of equity based awards up to an aggregate of 3,000,000 common shares and we may seek to increase shares available under our Equity Incentive Plan in the future.

Future offerings of debt or equity securities ranking senior to our common shares or incurrence of debt (including under our credit facility) may adversely affect the market price of our common shares.

If we decide to issue debt or equity securities in the future ranking senior to our common shares or otherwise incur indebtedness (including under our credit facility), it is possible that these securities or indebtedness will be governed by an indenture or other instrument containing covenants restricting our operating flexibility and limiting our ability to make distributions to our shareholders. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges, including with respect to distributions, more favorable than those of our common shares and may result in dilution to owners of our common shares. Because our decision to issue debt or equity securities in any future offering or otherwise incur indebtedness will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings or financings, any of which could reduce the market price of our common shares and dilute the value of our common shares.

Item 1B. *Unresolved Staff Comments*

None

Item 2. Properties

The following table sets forth certain operating information for our wholly-owned hotels as of December 31, 2014:

Property	Location	Management Company	Date of Acquisition	Year Opened	Number of Rooms	Purchase Price	Purchase Price per Room	Mortgage Debt Balance
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	Billerica, Massachusetts	IHM	4/23/2010	1999	147	\$ 12.5 million	\$ 85,714	\$16.2 million
Homewood Suites by Hilton Minneapolis-Mall of America	Bloomington, Minnesota	IHM	4/23/2010	1998	144	\$ 18.0 million	\$125,000	—
Homewood Suites by Hilton Nashville-Brentwood	Brentwood, Tennessee	IHM	4/23/2010	1998	121	\$ 11.3 million	\$ 93,388	—
Homewood Suites by Hilton Dallas-Market Center	Dallas, Texas	IHM	4/23/2010	1998	137	\$ 10.7 million	\$ 78,102	—
Homewood Suites by Hilton Hartford-Farmington	Farmington, Connecticut	IHM	4/23/2010	1999	121	\$ 11.5 million	\$ 95,041	—
Homewood Suites by Hilton Orlando-Maitland	Maitland, Florida	IHM	4/23/2010	2000	143	\$ 9.5 million	\$ 66,433	—
Homewood Suites by Hilton Carlsbad (North San Diego County)	Carlsbad, California	IHM	11/3/2010	2008	145	\$ 32.0 million	\$220,690	\$19.9 million
Hampton Inn & Suites Houston-Medical Center	Houston, Texas	IHM	7/2/2010	1997	120	\$ 16.5 million	\$137,500	\$18.3 million
Courtyard Altoona	Altoona, Pennsylvania	Concord	8/24/2010	2001	105	\$ 11.3 million	\$107,619	\$6.2 million
Springhill Suites Washington	Washington, Pennsylvania	Concord	8/24/2010	2000	86	\$ 12.0 million	\$139,535	\$4.8 million
Residence Inn Long Island Holtsville	Holtsville, New York	IHM	8/3/2010	2004	124	\$ 21.3 million	\$171,774	—
Residence Inn White Plains	White Plains, New York	IHM	9/23/2010	1982	134	\$ 21.2 million	\$159,398	—
Residence Inn New Rochelle	New Rochelle, New York	IHM	10/5/2010	2000	127	\$ 21.0 million	\$169,355	\$14.8 million
Residence Inn Garden Grove	Garden Grove, California	IHM	7/14/2011	2003	200	\$ 43.6 million	\$218,000	\$34.0 million
Residence Inn Mission Valley	San Diego, California	IHM	7/14/2011	2003	192	\$ 52.5 million	\$273,438	\$30.1 million
Homewood Suites by Hilton San Antonio River Walk	San Antonio, Texas	IHM	7/14/2011	1996	146	\$ 32.5 million	\$222,603	\$17.2 million
Residence Inn Washington DC	Washington, DC	IHM	7/14/2011	1974	103	\$ 29.4 million	\$280,000	—
Residence Inn Tysons Corner	Vienna, Virginia	IHM	7/14/2011	2001	121	\$ 37.0 million	\$305,785	\$23.5 million
Hampton Inn Portland Downtown	Portland, Maine	IHM	12/27/2012	2011	122	\$ 28.0 million	\$229,508	—
Courtyard Houston	Houston, Texas	IHM	2/5/2013	2010	197	\$ 34.8 million	\$176,395	\$19.5 million
Hyatt Place Pittsburgh North Shore	Pittsburgh, Pennsylvania	IHM	6/17/2013	2010	178	\$ 40.0 million	\$224,719	\$23.6 million
Hampton Inn Exeter	Exeter, New Hampshire	IHM	8/9/2013	2010	111	\$ 15.2 million	\$136,937	—
Hilton Garden Inn Denver Tech	Denver, Colorado	IHM	9/26/2013	1999	180	\$ 27.9 million	\$155,000	—
Residence Inn Bellevue	Bellevue, Washington	IHM	10/31/2013	2008	231	\$ 71.8 million	\$316,883	\$47.6 million
Springhill Suites Savannah	Savannah, Georgia	IHM	12/5/2013	2009	160	\$ 39.8 million	\$248,438	\$30.0 million
Residence Inn Silicon Valley I	Sunnyvale, CA	IHM	6/9/2014	1983	231	\$ 92.8 million	\$401,776	\$64.8 million
Residence Inn Silicon Valley II	Sunnyvale, CA	IHM	6/9/2014	1985	248	\$ 102 million	\$411,103	\$70.7 million
Residence Inn San Mateo	San Mateo, CA	IHM	6/9/2014	1985	160	\$ 72.7 million	\$454,097	\$48.6 million
Residence Inn Mountain View	Mountain View, CA	IHM	6/9/2014	1985	112	\$ 56.4 million	\$503,869	\$37.9 million
Hyatt Place Cherry Creek	Glendale, CO	IHM	8/29/2014	1987	194	\$ 32 million	\$164,948	—
Courtyard Addison	Addison, TX	IHM	11/17/2014	2000	176	\$ 24.1 million	\$137,178	—
Courtyard West University Houston	Houston, TX	IHM	11/17/2014	2004	100	\$ 20.1 million	\$201,481	—
Residence Inn West University Houston	Houston, TX	IHM	11/17/2014	2004	120	\$ 29.4 million	\$245,363	—
Hilton Garden Inn Burlington	Burlington, MA	IHM	11/17/2014	1975	179	\$ 33.0 million	\$184,392	—
Total					5,115	\$ 1,123.8 million	\$219,707	\$527.7 million

We lease our headquarters at 50 Coconut Row, Suite 211, Palm Beach, FL 33480. The Altoona hotel is subject to a ground lease with an expiration of April 30, 2029. The Company has an option of up to 12 additional terms of five years each. In connection with the New Rochelle hotel, there are an air rights lease and garage lease that each expire on December 1, 2104.

Item 3. *Legal Proceedings*

The nature of the operations of the hotels exposes the hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. An affiliate of the Company is currently a defendant, along with IHM, in a class action lawsuit pending in the San Diego County Superior Court. The class actions were filed on April 25, 2012 and February 27, 2013, and have subsequently been consolidated on November 8, 2013 under the title Martinez et al v. Island Hospitality Management, Inc., et al. Case No. 37-2012-00096221-CU-OE-CTL. The class actions relate to fifteen hotels operated by IHM in the state of CA and owned by affiliates of the Company, NewINK JV, INK JV, and/or certain third parties. Both complaints in the now consolidated lawsuit allege various wage and hour law violations including unpaid off-the-clock work, failure to provide meal breaks and failure to provide rest breaks. The plaintiffs seek injunctive relief, money damages, penalties, and interest. We are defending our case vigorously. As of December 31, 2014, included in accounts payable and expenses, is \$0.3 million, which represents an estimate of our exposure to the litigation and is also estimated as the maximum possible loss that the Company may incur.

Item 4. *Mine Safety Disclosures*

Not applicable.

Part II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Our common shares began trading on the NYSE, on April 16, 2010 under the symbol "CLDT". The closing price of our common shares on the NYSE on December 31, 2014 was \$28.97 per share. The following table sets forth, for the periods indicated, the high and low closing sales prices per share reported on the New York Stock Exchange as traded and the cash dividends declared per share:

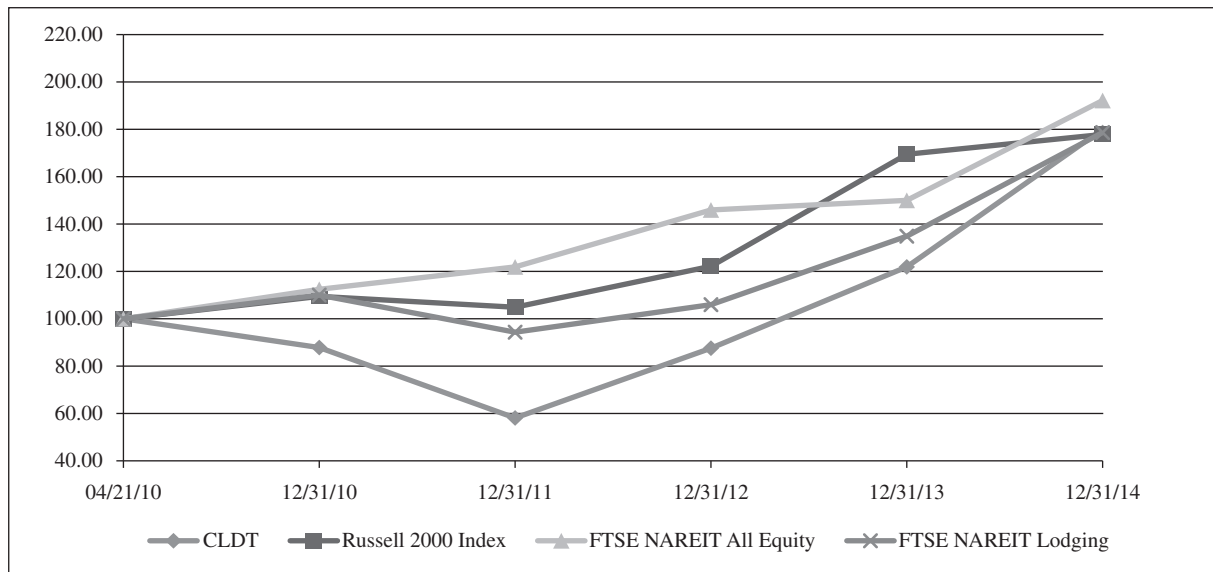
	<u>High</u>	<u>Low</u>	<u>Dividends</u>
2014			
First quarter	\$21.30	\$19.85	\$0.21
Second quarter	22.95	20.21	0.24
Third quarter	23.41	21.08	0.24
Fourth Quarter	29.61	22.75	0.24
2013			
First quarter	\$17.61	\$14.60	\$0.21
Second quarter	19.58	16.25	0.21
Third quarter	19.85	17.25	0.21
Fourth Quarter	21.15	17.85	0.21

The Company's board of trustees has authorized a monthly dividend payment of \$0.10 per share for the first quarter of 2015. The January 2015 monthly dividend was paid on February 27, 2015 to shareholders of record on January 30, 2015.

Shareholder Information

On February 28, 2015, there were 79 registered holders of record of our common shares. This figure does not include beneficial owners who hold shares in nominee name. However, because many of our common shares are held by brokers and other institutions, we believe that there are more beneficial holders of our common shares than record holders. In order to comply with certain requirements related to our qualification as a REIT, our charter, subject to certain exceptions, limits the number of common shares that may be owned by any single person or affiliated group to 9.8% of the outstanding common shares.

	Initial investment at April 16, 2010	Value of initial investment at December 31, 2010	Value of initial investment at December 31, 2011	Value of initial investment at December 31, 2012	Value of initial investment at December 31, 2013	Value of initial investment at December 31, 2014
Chatham Lodging Trust . . .	\$100.00	\$ 87.92	\$ 58.12	\$ 87.62	\$122.03	180.06
Russell 2000 Index	\$100.00	\$109.57	\$105.00	\$122.17	\$169.59	177.90
FTSE NAREIT All Equity REIT Index	\$100.00	\$112.59	\$121.91	\$145.93	\$150.10	192.16
FTSE NAREIT Lodging/Resorts Index	\$100.00	\$110.00	\$ 94.25	\$106.07	\$134.90	178.74



The above graph provides a comparison of the cumulative total return on our common shares from April 16, 2010, the date on which our shares began trading, to the NYSE closing price per share on December 31, 2014 with the cumulative total return on the Russell 2000 Index (the “Russell 2000”), the FTSE NAREIT All Equity REIT Index (the “NAREIT All Equity”) and the NAREIT Lodging/Resorts Index (the “NAREIT Lodging”). The total return values were calculated assuming a \$100 investment on April 21, 2010 with reinvestment of all dividends in (i) our common shares, (ii) the Russell 2000, (iii) the NAREIT All Equity and (iv) the NAREIT Lodging. The total return values include any dividends paid during the period.

Distribution Information

In order to maintain our qualification as a REIT, we must make distributions to our stockholders each year in an amount equal to at least:

- 90% of our REIT taxable income determined without regard to the dividends paid deduction and excluding net capital gains; plus

- 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code; minus
- Any excess non-cash income (as defined in the Code).

The following table sets forth information regarding the declaration, payment and income tax characterization of distributions by the Company on its common shares for the years ended December 31, 2014 and 2013 and respectively:

2014

<u>Month to which distribution relates</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Common Share Distribution amount</u>	<u>Ordinary Income</u>	<u>Return of Capital</u>
January	1/31/2014	2/28/2014	\$0.07	\$0.069	\$0.001
February	2/28/2014	3/28/2014	0.07	0.069	0.001
March	3/31/2014	4/25/2014	0.07	0.069	0.001
April	4/30/2014	5/30/2014	0.08	0.078	0.002
May	5/30/2014	6/27/2014	0.08	0.078	0.002
June	6/30/2014	7/25/2014	0.08	0.078	0.002
July	7/31/2014	8/29/2014	0.08	0.078	0.002
August	8/29/2014	9/26/2014	0.08	0.078	0.002
September	9/30/2014	10/31/2014	0.08	0.078	0.002
October	10/31/2014	11/28/2014	0.08	0.078	0.002
November	11/28/2014	12/26/2014	0.08	0.078	0.002
December	12/31/2014	1/30/2015	0.08	0.078	0.002
			<u>\$0.93</u>	<u>\$0.909</u>	<u>\$0.021</u>

2013

<u>Month to which distribution relates</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Common Share Distribution amount</u>	<u>Ordinary Income</u>	<u>Return of Capital</u>
January	1/31/2013	2/22/2013	\$0.07	\$0.06	\$0.01
February	2/28/2013	3/29/2013	0.07	0.06	0.01
March	3/29/2013	4/26/2013	0.07	0.06	0.01
April	4/30/2013	5/31/2013	0.07	0.06	0.01
May	5/31/2013	6/28/2013	0.07	0.06	0.01
June	6/28/2013	7/26/2013	0.07	0.06	0.01
July	7/31/2013	8/30/2013	0.07	0.06	0.01
August	8/30/2013	9/27/2013	0.07	0.06	0.01
September	9/30/2013	10/25/2013	0.07	0.06	0.01
October	10/31/2013	11/29/2013	0.07	0.06	0.01
November	11/29/2013	12/27/2013	0.07	0.06	0.01
December	12/31/2013	1/31/2014	0.07	0.06	0.01
			<u>\$0.84</u>	<u>\$0.72</u>	<u>\$0.12</u>

Equity Compensation Plan Information

The following table provides information, as of December 31, 2014, relating to our Equity Incentive Plan pursuant to which grants of common share options, share awards, share appreciation rights, performance units and other equity-based awards options may be granted from time to time.

	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans</u>
Equity compensation plans approved by security holders ¹	—	—	2,296,458
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	2,296,458

¹ Our Equity Incentive Plan was approved by our company's sole trustee and our company's sole shareholder prior to completion of our IPO. The plan was amended and restated as of May 17, 2013 by our Board of Trustees to increase the maximum number of shares available under the plan to 3,000,000 shares.

Issuer Purchases of Equity Securities

We do not currently have a repurchase plan or program in place. Pursuant to the terms of our senior secured revolving credit facility, we are not able to repurchase shares in the future. However, we do provide employees, who have been issued restricted common shares, the option of forfeiting shares to us to satisfy the minimum statutory tax withholding requirements on the date their shares vest. There were 867 and 445 common shares forfeited in the years ended December 31, 2014 and 2013, respectively, related to such repurchases.

Item 6. Selected Financial Data

The following tables present selected historical financial information as of and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010. The data for the year ended December 31, 2010 represents the period from April 16, 2010 to December 31, 2010. The selected historical financial information as of and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 has been derived from our audited consolidated financial statements. The selected historical financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the financial statements and notes thereto, both included in this Annual Report on Form 10-K.

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Period from April 16, 2010 December 31, 2010
(In thousands, except share and per-share data)					
Statement of Operations Data:					
Total revenue	\$ 197,216	\$ 126,228	\$ 100,464	\$ 73,096	\$ 25,470
Hotel operating expenses	100,961	68,596	55,030	42,167	15,025
Depreciation and amortization	34,710	18,249	14,273	11,971	2,564
Property taxes and insurance	12,624	8,915	7,088	5,321	1,606
General and administrative	9,852	8,131	7,565	5,802	3,547
Hotel property acquisition costs and other charges	10,381	3,341	236	7,706	3,189
Reimbursed costs from unconsolidated real estate entities	1,992	1,635	1,622	—	—
Total operating expenses	170,520	108,867	85,814	72,967	25,931
Operating income	26,696	17,361	14,650	129	(461)
Interest and other income	108	132	55	22	193
Interest expense, including amortization of deferred fees	(21,354)	(11,580)	(14,641)	(8,190)	(932)
Loss on early extinguishment of debt	(184)	(933)	—	—	—
Loss from unconsolidated real estate entities	(3,830)	(1,874)	(1,439)	(997)	—
Net gain from remeasurement and sale of investment in unconsolidated real estate entities	65,750	—	—	—	—
Income (loss) before income tax expense	67,186	3,106	(1,375)	(9,036)	(1,200)
Income tax expense	(105)	(124)	(75)	(69)	(17)
Net income (loss)	\$ 67,081	\$ 2,982	\$ (1,450)	\$ (9,105)	\$ (1,217)
Net income attributable to non-controlling interest	(208)	—	—	—	—
Net income attributable to common shareholders	\$ 66,873	\$ 2,982	\$ (1,450)	\$ (9,105)	\$ (1,217)
Income per Common Share — Basic:					
Net income (loss) attributable to common shareholders	\$ 2.32	\$ 0.13	\$ (0.12)	\$ (0.69)	\$ (0.20)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Period from April 16, 2010 December 31, 2010
(In thousands, except share and per-share data)					
Income per Common Share — Diluted:					
Net income (loss) attributable to common shareholders	\$ 2.30	\$ 0.13	\$ (0.12)	\$ (0.69)	\$ (0.20)
Weighted average number of common shares outstanding:					
Basic	28,531,094	21,035,892	13,811,691	13,280,149	6,377,333
Diluted	28,846,724	21,283,831	13,811,691	13,280,149	6,377,333

Other Data:

Net cash provided by operating activities	49,306	31,571	14,885	8,946	5,274
Net cash used in investing activities	(452,988)	(235,190)	(13,036)	(112,523)	(201,511)
Net cash provided by (used in) financing activities	414,538	203,344	(2,033)	103,489	200,981
Cash dividends declared per common share	0.93	0.84	0.78	0.70	0.35

	As of December 31, 2014	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
(In thousands)					
Balance Sheet Data:					
Investment in hotel properties, net	\$1,096,425	\$652,877	\$426,074	\$402,815	\$208,080
Cash and cash equivalents	15,077	4,221	4,496	4,680	4,768
Restricted cash	12,030	4,605	2,949	5,299	3,018
Investment in unconsolidated real estate entities	28,152	774	13,362	36,003	—
Hotel receivables (net of allowance for doubtful accounts)	3,601	2,455	2,098	2,057	891
Deferred costs, net	7,514	7,113	6,312	6,350	4,710
Prepaid expenses and other assets	2,300	1,879	1,930	1,502	735
Total assets	<u>\$1,165,099</u>	<u>\$673,924</u>	<u>\$457,221</u>	<u>\$458,706</u>	<u>\$222,202</u>
Mortgage debt	\$ 527,721	\$222,063	\$159,746	\$161,440	\$ 12,333
Revolving credit facility	22,500	50,000	79,500	67,500	37,800
Accounts payable and accrued expenses	20,042	12,799	8,488	10,184	5,248
Distributions in excess of investments of unconsolidated real estate entities	—	1,576	—	—	—
Distributions payable	2,884	1,950	2,875	2,464	1,657
Total liabilities	<u>573,147</u>	<u>288,388</u>	<u>250,609</u>	<u>241,588</u>	<u>57,038</u>
Total shareholders' equity	<u>588,537</u>	<u>383,369</u>	<u>205,001</u>	<u>216,090</u>	<u>164,739</u>
Noncontrolling Interest in Operating Partnership	3,415	2,167	1,611	1,028	425
Total liabilities and equity	<u>\$1,165,099</u>	<u>\$673,924</u>	<u>\$457,221</u>	<u>\$458,706</u>	<u>\$222,202</u>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Chatham Lodging Trust ("we," "us" or the "Company") was formed as a Maryland real estate investment trust on October 26, 2009. The Company is internally-managed and was organized to invest primarily in

premium-branded upscale extended-stay and select-service hotels. The Company has elected to be taxed as a real estate investment trust for federal income tax purposes (“REIT”).

The Company had no operations prior to the consummation of the IPO. The net proceeds from our share offerings are contributed to Chatham Lodging, L.P., our operating partnership (the “Operating Partnership”), in exchange for partnership interests. Substantially all of the Company’s assets are held by, and all operations are conducted through, the Operating Partnership. Chatham Lodging Trust is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership. Certain of the Company’s executive officers hold vested and unvested long-term incentive plan units in the Operating Partnership, which are presented as non-controlling interests on our consolidated balance sheets.

From inception through December 31, 2014, the Company has completed the following offerings of its common shares:

<u>Type of Offering</u>	<u>Date</u>	<u>Shares Issued</u>	<u>Price per Share</u>	<u>Gross Proceeds (in millions)</u>	<u>Net Proceeds (in millions)</u>
Initial public offering	4/21/2010	8,625,000	\$20.00	\$172,500.0	\$158,700.0
Private placement offering (1)	4/21/2010	500,000	20.00	10,000.0	10,000.0
Follow-on common share offering	2/8/2011	4,000,000	16.00	64,000.0	60,300.0
Over-allotment option	2/8/2011	600,000	16.00	9,600.0	9,100.0
Follow-on common share offering	1/14/2013	3,500,000	14.70	51,400.0	48,400.0
Over-allotment option	1/31/2013	92,677	14.70	1,400.0	1,300.0
Follow-on common share offering	6/18/2013	4,500,000	16.35	73,600.0	70,000.0
Over-allotment option	6/28/2013	475,823	16.35	7,800.0	7,400.0
Follow-on common share offering	9/30/2013	3,250,000	18.35	59,600.0	56,700.0
Over-allotment option	10/11/2013	487,500	18.35	8,900.0	8,500.0
Follow-on common share offering	9/24/2014	6,000,000	21.85	131,100	125,600
Over-allotment option	9/24/2014	900,000	21.85	19,700	18,900
		<u>32,931,000</u>		<u>\$ 609,600</u>	<u>\$ 574,900</u>

(1) The Company sold 500,000 common shares to Jeffrey H. Fisher, the Company’s Chairman, President and Chief Executive Officer (“Mr. Fisher”) in a private placement concurrent with its IPO.

As of December 31, 2014, the Company owned 34 hotels with an aggregate of 5,115 (unaudited) rooms located in 15 states and the District of Columbia. The Company also (i) held a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with NorthStar Realty Finance Corp (“NorthStar”), which was formed in the second quarter of 2014 and acquired 47 hotels from a joint venture (the “Innkeepers JV”) between the Company and Cerberus Capital Management (“Cerberus”), comprising an aggregate of 6,094 (unaudited) rooms, (ii) held a 10.0% noncontrolling interest in a separate joint venture (the “Inland JV”) with NorthStar, which was formed in the fourth quarter of 2014 and acquired 48 hotels from Inland American Real Estate Trust, Inc. (“Inland”), comprising an aggregate of 6,401 (unaudited) rooms, and (iii) held a 5.0% noncontrolling interest in a joint venture (the “Torrance JV”) with Cerberus that owns the 248-room (unaudited) Residence Inn by Marriott in Torrance, CA. We sometimes refer to the NewINK JV, Inland JV and Torrance JV collectively as the (“JVs”).

To qualify as a REIT, the Company cannot operate its hotels. Therefore, the Operating Partnership and its subsidiaries lease our wholly owned hotels to taxable REIT subsidiary lessees (“TRS Lessees”), which are wholly owned by one of the Company’s taxable REIT subsidiary (“TRS”) holding companies. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation. The Company indirectly owns its (i) 10.3% interest in 47 of the NewINK JV hotels, (ii) 10% interest in 48 of the Inland JV hotels and

(iii) its 5% interest in the Torrance JV through the Operating Partnership. All of the NewINK JV hotels, Inland JV hotels and the Torrance JV hotel are leased to TRS Lessees, in which the Company indirectly owns noncontrolling interests through one of its TRS holding companies.

The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of December 31, 2014, Island Hospitality Management Inc. (“IHM”), which was 90% owned by Mr. Fisher, managed 32 of the Company’s wholly owned hotels and Concord Hospitality Enterprises Company (“Concord”) managed two of the Company’s wholly owned hotels. As of December 31, 2014, all of the NewINK JV hotels were managed by IHM. As of December 31, 2014, 34 of the Inland JV hotels are managed by IHM and 14 hotels are managed by Marriott International, Inc. (“Marriott”). The Torrance JV hotel is managed by Marriott.

Financial Condition and Operating Performance Metrics

We measure financial condition and hotel operating performance by evaluating financial metrics and measures such as:

- Revenue Per Available Room (“RevPAR”),
- Average Daily Rate (“ADR”),
- Occupancy percentage,
- Funds From Operations (“FFO”),
- Adjusted FFO,
- Earnings before interest, taxes, depreciation and amortization (“EBITDA”),
- Adjusted EBITDA, and
- Hotel EBITDA.

We evaluate the hotels in our portfolio and potential acquisitions using these metrics to determine each hotel’s contribution toward providing income to our shareholders through increases in distributable cash flow and increasing long-term total returns through appreciation in the value of our common shares. RevPAR, ADR and Occupancy are hotel industry measures commonly used to evaluate operating performance. RevPAR, which is calculated as total room revenue divided by total number of available rooms, is an important metric for monitoring hotel operating performance, and more specifically hotel revenue.

“Non-GAAP Financial Measures” provides a detailed discussion of our use of FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA and a reconciliation of FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA to net income or loss, measurements recognized by generally accepted accounting principles in the United States (“GAAP”).

Results of Operations

Industry outlook

We believe that the hotel industry’s performance is correlated to the performance of the economy overall, and specifically key economic indicators such as GDP growth, employment trends, corporate travel and corporate profits. We expect a continuing improvement in the performance of the hotel industry as GDP is currently forecast to grow approximately 3.2% in 2015, labor market conditions are expected to continue to improve and corporate profits and travel expense are expected to continue to rise. As reported by Smith Travel Research, monthly industry RevPAR has been higher year over year since March 2010, so we are into the fifth year of RevPAR growth in what some believe will be a longer cycle than those experienced in the past. As a comparison, from 1992 to 2000, the industry saw nine consecutive years of RevPAR growth and from 2003 to

2007 the industry saw five consecutive years of RevPAR growth. As reported by Smith Travel Research, industry RevPAR grew 6.8% in 2012, 5.4% in 2013 and 8.3% in 2014 compared to the same periods in the respective prior years. Industry analysts such as Smith Travel Research and PKF Hospitality are projecting industry RevPAR to grow in a range of 6.4% to 6.7% in 2015 based on economic growth, with lodging demand projected to increase by 2% to 3% and new supply projected to grow by 1.1% to 1.3%. Of the projected RevPAR growth, industry analysts believe growth in ADR will comprise the majority of the expected growth. Primary hotel franchisors Marriott, Hilton, Hyatt and Starwood are projecting 2015 RevPAR growth in North America in a range of 5% to 7%. We are currently projecting RevPAR at our hotels to grow 5% to 7% in 2015 with ADR comprising all of our RevPAR growth. Industry analysts are currently predicting that RevPAR will continue to grow in 2016 with preliminary estimates from Smith Travel Research and PFK Hospitality ranging between 5.9% and 6.6%.

Comparison of the year ended December 31, 2014 (“2014”) to the year ended December 31, 2013 (“2013”)

Results of operations for the year ended December 31, 2014 include the operating activities of our 34 wholly owned hotels and our investments in the NewINK JV, Inland JV and Torrance JV as well as the Innkeepers JV. We owned 25 hotels at December 31, 2013 and owned a 10.3% joint venture interest in the Innkeepers JV and a 5% interest in the Torrance JV. Accordingly, the comparisons below are influenced by the fact that nine wholly owned hotels and the NewINK JV and Inland JV were owned by us for only a portion of the year ended December 31, 2014. We acquired our 10.3% interest in NewINK JV (which comprised 47 of the 51 hotels owned by the Innkeepers JV) on June 9, 2014, we acquired four hotels in the Silicon Valley, CA area on June 9, 2014 from the Innkeepers JV, we acquired one hotel in Glendale, CO on August 29, 2014, and we acquired four hotels and our 10% interest in the Inland JV on November 17, 2014.

Revenue

Revenue, which consists primarily of room, food and beverage and other operating revenues from our wholly owned hotels, was as follows for the periods indicated (in thousands):

	Year ended		% Change
	December 31, 2014	December 31, 2013	
Room	\$184,926	\$118,169	56.5%
Food and beverage	2,764	1,311	110.8%
Other	7,534	5,113	47.3%
Cost reimbursements from unconsolidated real estate entities	1,992	1,635	21.8%
Total revenue	\$197,216	\$126,228	56.2%

Total revenue was \$197.2 million for the year ended December 31, 2014 compared to total revenue of \$126.2 million for the 2013 period. Total revenue related to the six hotels acquired during 2013 contributed \$30.3 million of the increase and nine hotels acquired during 2014 contributed \$31.3 million of the increase. Since all of our hotels are select service or limited service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue was \$184.9 million and \$118.2 million for the years ended December 31, 2014 and 2013, respectively, with \$27.5 million of this increase attributable to the six hotels acquired in 2013 and \$30.7 million attributable to the nine hotels acquired in 2014. The \$8.5 million remainder of the increase represents an 7.2% increase over 2013.

As reported by Smith Travel Research, industry RevPAR for the years ended December 31, 2014 and 2013 increased 8.3% and 5.4%, respectively, as compared to the years ended December 31, 2013 and 2012. RevPAR at our wholly owned hotels increased 8.2% and 4.6%, respectively, in the 2014 and 2013 periods as compared to the respective prior periods. Our RevPAR performance in the year ended December 31, 2013 was adversely

impacted by renovations that occurred at our Washington, D.C. hotel, which operated without a brand for most of 2013 until it was rebranded to a Residence Inn by Marriott on September 20, 2013. Excluding the Washington D.C. hotel, RevPAR was up 6.3% for the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Since room revenue is the primary component of total revenue, our revenue results are dependent on maintaining and improving hotel occupancy and ADR at our hotels. Occupancy, ADR, and RevPAR results for the 34 wholly owned hotels are presented in the following table in each period to reflect operation of the hotels regardless of our ownership interest during the periods presented. Operations at the Cherry Creek Hotel did not begin until October 2013 and for this reason have been excluded from the results below:

	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2013</u>
Occupancy	81.6%	79.9%
ADR	\$150.64	\$141.72
RevPAR	\$122.91	\$113.21

The RevPAR increase above of 8.6% was attributable to an increase in ADR of 6.3% and an increase in occupancy of 2.1%.

Food and beverage revenue was \$2.8 million and \$1.3 million for the years ended December 31, 2014 and 2013, respectively. For 2014, \$2.1 million of the increase relates to the Pittsburgh, Courtyard Houston and Denver Tech hotels, which were acquired in 2013 and \$0.2 million relates to the Cherry Creek and Burlington Hotels, which were acquired in 2014.

Other operating revenue, comprised of meeting room, gift shop, in-room movie and other ancillary amenities revenue, was \$7.5 million and \$5.1 million for the years ended December 31, 2014 and 2013, respectively. Total other operating revenue related to six hotels acquired in 2013 contributed \$1.6 million of the increase and the nine hotels acquired in 2014 contributed \$0.3 million of the increase. The remaining \$0.5 million increase is attributable to increased occupancy at the 19 comparable hotels.

Cost reimbursements from unconsolidated real estate entities, comprised of payroll costs at the Innkeepers JV (from January 1, 2013 to June 8, 2014), NewINK JV (from June 9, 2014 to December 31, 2014) and Inland JV (from November 17, 2014 to December 31, 2014) where the Company is the employer and an entity which is 2.5% owned by Mr. Fisher (from August 1, 2014 to December 31, 2014), were \$2.0 million and \$1.6 million for the years ended December 31, 2014 and 2013, respectively. The increase is due to additional employees hired during 2014.

Hotel Operating Expenses

Hotel operating expenses consisted of the following for the periods indicated (in thousands):

	Year ended		% Change
	December 31, 2014	December 31, 2013	
Hotel operating expenses:			
Room	\$ 37,516	\$25,709	45.9%
Food and beverage expense	1,966	944	108.3%
Telephone expense	1,304	899	45.1%
Other expense	2,056	1,580	30.1%
General and administrative	16,265	11,529	41.1%
Franchise and marketing fees	15,110	9,394	60.8%
Advertising and promotions	3,676	2,782	32.1%
Utilities	7,269	4,955	46.7%
Repairs and maintenance	8,705	6,310	38.0%
Management fees	6,096	3,752	62.5%
Insurance	998	742	34.5%
Total hotel operating expenses	<u>\$100,961</u>	<u>\$68,596</u>	<u>47.2%</u>

Hotel operating expenses increased \$32.4 million to \$101.0 million for the year ended December 31, 2014 from \$68.6 million for the year ended December 31, 2013. Overall, total hotel operating expenses increased 47.2%, which is consistent with the increase in revenue from the new hotels as well as from increased occupancy at our other hotels. The increase in total hotel operating expenses attributable to the six hotels acquired in 2013 is \$15.5 million while the nine hotels acquired in 2014 contributed \$12.9 million to the increase. Excluding those hotels, total hotel operating expenses increased \$4.0 million or 6.6%, which is less than the increase in revenue. Because of this, our margins expanded in 2014.

Room expenses, which are the most significant component of hotel operating expenses, increased \$11.8 million from \$25.7 million in 2013 to \$37.5 million in 2014. Total room expenses related to the six hotels acquired in 2013 contributed \$5.6 million to the increase and the nine hotels acquired in 2014 contributed \$4.5 million to the increase. Excluding those hotels, room expenses increased \$1.7 million or 7.5%, due primarily to increased hotel employee compensation and benefits.

The remaining hotel operating expenses increased \$20.5 million or 47.9%, from \$42.9 million in 2013 to \$63.4 million in 2014, which increase is consistent with the 42.3% increase in the number of rooms owned in 2014 compared to 2013. The number of rooms for the year increased from 3,591 in 2013 to 5,115 rooms in 2014 due to acquisitions. The increase attributable to the six hotels acquired in 2013 is \$9.9 million while the nine hotels acquired in 2014 contributed \$8.4 million to the increase. Food and beverage expense increased due to the Pittsburgh, Courtyard Houston and Denver Tech hotels that were acquired in 2013 and the Cherry Creek and Burlington Hotels acquired in 2014 that have food and beverage operations. Most of our other hotels have limited for sale food and beverage activities.

Depreciation and Amortization

Depreciation and amortization expense increased \$16.5 million from \$18.2 million for the year ended December 31, 2013 to \$34.7 million for the year ended December 31, 2014. The increase attributable to the six hotels acquired in 2013 is \$5.2 million, while the increase attributable to the nine hotels acquired in 2014 is \$9.6 million. Depreciation is recorded on our assets generally 40 years for buildings, 20 years for land improvements, 15 years for building improvements and one to ten years for hotel furniture, fixtures and equipment from the date of acquisition on a straight-line basis. Depreciable lives of hotel furniture, fixtures and equipment are generally

between the date of acquisition and the expected date furniture, fixtures and equipment will be replaced. Amortization of franchise fees is recorded on a straight-line basis over the term of the respective franchise agreement.

Property Taxes and Insurance

Total property taxes and insurance expenses increased \$3.7 million from \$8.9 million for the year ended December 31, 2013 to \$12.6 million for the year ended December 31, 2014. The increase related to the six hotels acquired in 2013, which contributed \$1.7 million of the increase, and the nine hotels acquired in 2014, which contributed \$1.6 million of the increase. The remaining increase of \$0.4 million, or 10.8%, for the remaining hotels is due to incremental increases in values and assessments.

General and Administrative

General and administrative expenses principally consist of employee-related costs, including base payroll, bonuses and amortization of restricted stock and awards of long-term incentive plan (“LTIP”) units. These expenses also include corporate operating costs, professional fees and trustees’ fees. Total general and administrative expenses (excluding amortization of stock based compensation of \$2.5 million and \$2.1 million for the years ended December 31, 2014 and 2013, respectively) increased \$1.4 million, or 23.3%, to \$7.4 million in 2014 from \$6.0 million in 2013, with the increase due to higher employee compensation of \$1.0 million in 2014 associated with additional employees and incentive compensation and a \$0.4 million increase in franchise and state taxes.

Hotel Property Acquisition Costs and Other Charges

Hotel property acquisition costs increased \$7.1 million from \$3.3 million for the year ended December 31, 2013 to \$10.4 million for the year ended December 31, 2014. Expenses during 2014 related primarily to our portion of the expenses related to the recapitalization and sale of the Innkeepers JV, and our acquisition of the four Silicon Valley hotels, the Cherry Creek Hotel and the four Inland hotels. Acquisition-related costs are expensed when incurred. The Company incurred other charges of \$1.9 million in 2014 related to matters associated with the unsolicited offer from Blue Mountain Capital Management and matters related to its proxy settlement agreement with the HG Vora Group. The expense is primarily comprised of attorney’s fees of \$1.0 million and financial advisory expenses of \$0.9 million.

Reimbursed Costs from Unconsolidated Real Estate Entities

Reimbursed costs from unconsolidated real estate entities, comprised of corporate payroll costs of the Innkeepers JV, NewINK JV and Inland JV and an entity which is 2.5% owned by Mr. Fisher, where the Company is the employer, were \$2.0 million and \$1.6 million for the years ended December 31, 2014 and 2013, respectively. These costs are offset by the cost reimbursements from unconsolidated real estate entities included in revenues.

Interest and Other Income

Interest on cash and cash equivalents and other income decreased \$24 thousand from \$132 thousand for the year ended December 31, 2013 to \$108 thousand for the year ended December 31, 2014.

Interest Expense, Including Amortization of Deferred Fees

Interest expense increased \$9.8 million or 84.4% from \$11.6 million for the year ended December 31, 2013 to \$21.4 million for the year ended December 31, 2014 due to the 102.2% increase in debt outstanding from December 31, 2013 to 2014. Borrowings increased significantly to fund a portion of the \$500 million of acquisitions made during 2014. Interest expense is comprised of the following (in thousands):

	Year ended		% Change
	December 31, 2014	December 31, 2013	
Mortgage debt interest	\$17,748	\$ 8,639	105.4%
Credit facility interest	1,588	1,593	(0.3)%
Other fees	485	258	88.0%
Amortization of deferred financing costs	1,533	1,090	40.6%
Total	\$21,354	\$11,580	84.4%

The increase in interest expense for the years ended December 31, 2014 and 2013, is due to interest expense of \$6.7 million on \$306.5 million of loans issued in 2014, including the four new loans with an aggregate principal balance of \$222.0 million secured by the four Silicon Valley hotels and new loans of \$84.5 million secured by the Savannah, Billerica, Houston Medical Center and Carlsbad hotels. Lower credit facility interest is due to a decrease in the weighted average interest rate to 2.66% in 2014 from 2.78% in 2013. The increase in amortization of deferred financing costs relates to the new loans issued in 2014.

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt decreased \$0.7 million from a loss of \$0.9 million for the year ended December 31, 2013 compared to a loss of \$0.2 million for the year ended December 31, 2014 due to refinancing or paying off four loans in 2013 and one loan in 2014.

Loss from Unconsolidated Real Estate Entities

Loss from unconsolidated real estate entities increased \$1.9 million from a loss of \$1.9 million for the year ended December 31, 2013 to a loss of \$3.8 million for the year ended December 31, 2014. The majority of the increase is due to losses associated with the acquisition of an interest in the Inland JV of \$2.3 million, which included \$2.3 million of acquisition costs during the fourth quarter.

Gain on Sale from Unconsolidated Real Estate Entities

Gain on sale from unconsolidated real estate entities increased \$65.8 million from 2013. The increase is due to the sale of the Innkeepers JV to NewINK JV.

Income Tax Expense

Income tax expense decreased \$19 thousand from an expense of \$124 thousand for the year ended December 31, 2013 to an expense of \$105 thousand for the year ended December 31, 2014. We are subject to income taxes based on the taxable income of our TRS holding companies at a combined federal and state tax rate of approximately 40%.

Net Income

Net income was \$67.1 million for the year ended December 31, 2014, compared to net income of \$3.0 million for the year ended December 31, 2013. The increase in our net income was due to the factors discussed above.

Material Trends or Uncertainties

We are not aware of any material trends or uncertainties, favorable or unfavorable, that may be reasonably anticipated to have a material impact on either the capital resources or the revenues or income to be derived from the acquisition and operation of properties, loans and other permitted investments, other than those referred to in the risk factors identified in the “Risk Factors” section of this Annual Report on Form 10-K.

Comparison of the year ended December 31, 2013 (“2013”) to the year ended December 31, 2012 (“2012”)

Results of operations for the year ended December 31, 2013 include the operating activities of our 25 wholly owned hotels and our investments in the Innkeepers JV and the Torrance JV. We owned 19 hotels at December 31, 2012. Accordingly, the comparisons below are influenced by the fact that six hotels and the Torrance JV were not owned by us for the year ended December 31, 2012, whereas they were owned by us for all or part of 2013.

Revenues

Revenue, which consists primarily of the room, food and beverage and other operating revenues from our hotels, was as follows for the periods indicated (in thousands):

	Years Ended		% Change
	December 31, 2013	December 31, 2012	
Room	\$118,169	\$ 94,566	25.0%
Food and beverage	1,311	253	418.2%
Other	5,113	4,023	27.1%
Cost reimbursements from unconsolidated real estate entities	1,635	1,622	100.0%
Total revenue	<u>\$126,228</u>	<u>\$100,464</u>	<u>25.6%</u>

Total revenue was \$126.2 million for the year ended December 31, 2013 compared to total revenue of \$100.5 million for 2012. Since all of our hotels are select service or limited service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue was \$118.2 million and \$94.6 million for the years ended December 31, 2013 and 2012, respectively, with \$14.0 million of this increase attributable to the six hotels acquired in 2013 and \$6.5 million attributable to the Portland hotel acquired in late December 2012.

As reported by Smith Travel Research, industry RevPAR for the years ended December 31, 2013 and 2012 increased 5.4% and up 6.8%, respectively, as compared to the respective prior periods. RevPAR at our hotels increased 4.6% and 8.0%, respectively, in the 2013 and 2012 periods as compared to the respective prior periods. Our RevPAR performance in the year ended December 31, 2013 was adversely impacted by renovations that occurred at our Washington, D.C. hotel, which operated without a brand for most of 2013 until it was rebranded to a Residence Inn by Marriott on September 20, 2013. Excluding the Washington D.C. hotel, RevPAR was up 6.3% for the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Since room revenue is the primary component of total revenue, our revenue results are dependent on maintaining and improving hotel occupancy and ADR at our hotels. Occupancy, ADR, and RevPAR results are presented in the following table in each period to reflect operation of our wholly owned hotels regardless of our ownership interest during the period presented:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Occupancy	79.5%	78.8%
ADR	\$137.11	\$132.15
RevPAR	\$108.96	\$104.14

The RevPAR increase above of 4.6% was due to an increase in ADR of 3.8% and an increase in occupancy of 0.8%. Excluding the D.C. hotel under going rebranding, occupancy would have been 79.9% for the year ended December 31, 2013.

Food and beverage revenue was \$1.3 million and \$0.3 million for years ended December 31, 2013 and 2012, respectively. For 2013, \$1.0 million of the increase relates to the Pittsburgh, Courtyard Houston and Denver Tech hotels, which were acquired in 2013 and which have food and beverage operations. Most of our other hotels have limited for sale food and beverage activities.

Other operating revenue, comprised of meeting room, gift shop, in-room movie and other ancillary amenities revenue, was \$5.1 million and \$4.0 million for the years ended December 31, 2013 and 2012, respectively. Total other operating revenue related to the seven hotels acquired since late December 2012 contributed \$1.0 million of the increase.

Cost reimbursements from unconsolidated real estate entities, comprised of corporate payroll costs at the Innkeepers JV where the Company is the employer, were \$1.6 million for each of the years ended December 31, 2013 and 2012.

Hotel Operating Expenses

Hotel operating expenses consisted of the following for the periods indicated (in thousands):

	Years Ended		% Change
	December 31, 2013	December 31, 2012	
Hotel operating expenses:			
Room	\$25,709	\$20,957	22.7%
Food and beverage expense	944	307	207.5%
Telephone expense	899	718	25.2%
Other expense	1,580	1,508	4.8%
General and administrative	11,529	9,320	23.7%
Franchise and marketing fees	9,394	7,529	24.8%
Advertising and promotions	2,782	2,257	23.3%
Utilities	4,955	4,081	21.4%
Repairs and maintenance	6,310	4,958	27.3%
Management fees	3,752	2,872	30.6%
Insurance	742	523	41.9%
Total hotel operating expenses	<u>\$68,596</u>	<u>\$55,030</u>	<u>24.7%</u>

Hotel operating expenses increased \$13.6 million to \$68.6 million for the year ended December 31, 2013 from \$55.0 million for the year ended December 31, 2012. Overall, total hotel operating expenses increased 24.7%, which is consistent with the 25.6% increase in total revenue. The increase in total hotel operating expenses in 2013 attributable to the seven hotels acquired in late December 2012 and full year 2013 is \$11.5 million. Excluding the acquired hotels, total operating expenses increased 3.8%.

Room expenses, which are the most significant component of hotel operating expenses, increased \$4.7 million from \$21.0 million in 2012 to \$25.7 million in 2013. Total room expenses related to the seven hotels recently acquired contributed \$4.0 million of the increase. Excluding those hotels, room expenses increased \$0.7 million or 3.3%, due primarily to increased hotel employee compensation and benefits.

The remaining hotel operating expenses increased \$8.8 million or 25.9%, from \$34.1 million in 2012 to \$42.9 million in 2013, driven by the 48.9% increase in the number of rooms owned in 2013 compared to rooms

owned for most of 2012 (excluding the Portland, ME hotel, which was acquired in late December 2012). The number of rooms increased from 2,412 rooms in 2012 (excluding Portland, ME) to 3,591 rooms in 2013 due to acquisitions. The increase attributable to the seven hotels acquired in late December 2012 and full year 2013 is \$7.4 million. Food and beverage expense increased due to the Pittsburgh, Courtyard Houston and Denver Tech hotels that were acquired in 2013 and have food and beverage operations where as most of our other hotels have limited for sale food and beverage activities.

Depreciation and Amortization

Depreciation and amortization expense increased \$3.9 million from \$14.3 million for the year ended December 31, 2012 to \$18.2 million for the year ended December 31, 2013. The increase attributable to the seven hotels acquired in late 2012 and full year 2013 is \$3.8 million. Depreciation is recorded on our hotel buildings over 40 years from the date of acquisition on a straight-line basis. Depreciable lives of hotel furniture, fixtures and equipment are generally three to ten years between the date of acquisition and the expected date furniture, fixtures and equipment will be replaced. Amortization of franchise fees is recorded on a straight-line basis over the term of the respective franchise agreement.

Property Taxes and Insurance

Total property taxes and insurance expenses increased \$1.8 million from \$7.1 million for the year ended December 31, 2012 to \$8.9 million for the year ended December 31, 2013. The increase related to the seven hotels acquired in late 2012 and full year 2013, which contributed \$1.3 million of the increase. The remaining increase of \$0.5 million, or 6.7%, for the remaining hotels is due to incremental increase in values and assessments.

General and Administrative

General and administrative expenses principally consist of employee-related costs, including base payroll, bonuses and amortization of restricted stock and awards of LTIP units. These expenses also include corporate operating costs, professional fees and trustees' fees. Total general and administrative expenses (excluding amortization of stock based compensation of \$2.1 million and \$2.0 million for the years ended December 31, 2013 and 2012, respectively) increased \$0.4 million, or 7.1%, to \$6.0 million in 2013 from \$5.6 million in 2012 with the increase due to employee compensation.

Hotel Property Acquisition Costs and Other Charges

Hotel property acquisition costs increased \$3.1 million from \$0.2 million for the year ended December 31, 2012 to \$3.3 million for the year ended December 31, 2013. Expenses during 2013 related primarily to our acquisitions of the Courtyard Houston, Pittsburgh, Exeter, Denver Tech, Bellevue and Savannah Hotels. Acquisition-related costs are expensed when incurred. Only one acquisition, the Portland hotel, occurred in 2012.

Reimbursed Costs from Unconsolidated Real Estate Entities

Reimbursed costs from unconsolidated real estate entities, comprised of corporate payroll costs at the Innkeepers JV where the Company is the employer, were \$1.6 million and \$1.6 million for the year ended December 31, 2013 and 2012, respectively. These costs are offset by the cost reimbursements from unconsolidated real estate entities included in revenues.

Interest and Other Income

Interest on cash and cash equivalents and other income increased \$77 thousand from \$55 thousand for the year ended December 31, 2012 to \$132 thousand for the year ended December 31, 2013.

Interest Expense, Including Amortization of Deferred Fees

Interest expense decreased \$3.1 million from \$14.6 million for the year ended December 31, 2012 to \$11.6 million for the year ended December 31, 2013. A breakdown of interest expense is as follows (in thousands):

	Years Ended		% Change
	December 31, 2013	December 31, 2012	
Mortgage debt interest	\$ 8,639	\$ 9,654	(10.5)%
Credit facility interest	1,593	2,932	(45.7)%
Other fees	258	213	21.1%
Amortization of deferred financing costs	1,090	1,842	(40.8)%
Total	\$11,580	\$14,641	(20.9)%

The \$3.1 million decrease in interest expense is due to a reduction in interest expense of \$2.4 million and amortization of deferred fees of \$0.7 million. Mortgage debt interest decreased \$1.0 million or 10.5% due to the refinancing of three loans in the first quarter of 2013 which saved \$1.5 million due to lower interest rates, interest saved from paying off the Washington, D.C. hotel loan on January 31, 2013 of \$1.0 million, a lower interest rate on our senior secured revolving credit facility borrowings as a result of our amendment to the credit agreement in the fourth quarter of 2012 (which had weighted average borrowings of \$53.4 million at 2.78% in 2013 compared to weighted average borrowings of \$56.8 million at 5.05% in 2012), and partially offset by interest on three new loans on recently acquired hotels and reduced loan amortization costs attributable to deferred expenses written off on the loans repaid in 2013 included in loss from early extinguishment of debt.

Loss from Unconsolidated Real Estate Entities

Loss from unconsolidated real estate entities increased \$0.5 million from a loss of \$1.4 million for the year ended December 31, 2012 to a loss of \$1.9 million for the year ended December 31, 2013. The majority of the increase is due to costs associated with the early debt extinguishment and refinancing of \$8.9 million for the Innkeepers JV, of which our share was \$0.9 million.

Income Tax Expense

Income tax expense increased \$49 thousand from an expense of \$75 thousand for the year ended December 31, 2012 to an expense of \$124 thousand for the year ended December 31, 2013. We are subject to income taxes based on the taxable income of our taxable REIT subsidiary holding companies at a combined federal and state tax rate of approximately 40%.

Net Income

Net income was \$3.0 million for the year ended December 31, 2013, compared to a net loss of \$1.5 million for the year ended December 31, 2012. The increase in our net income was due to the factors discussed above.

Material Trends or Uncertainties

We are not aware of any material trends or uncertainties, favorable or unfavorable, that may be reasonably anticipated to have a material impact on either the capital resources or the revenues or income to be derived from the acquisition and operation of properties, loans and other permitted investments, other than those referred to in the risk factors identified in the “Risk Factors” section of this Annual Report on this Form 10-K.

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our operating performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, (4) Adjusted EBITDA and (5) Hotel EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as a measure of our operating performance prescribed by GAAP.

FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA do not represent cash generated from operating activities under GAAP and should not be considered as alternatives to net income or loss, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA are not measures of our liquidity, nor are FFO, Adjusted FFO, EBITDA, Adjusted EBITDA or Hotel EBITDA indicative of funds available to fund our cash needs, including our ability to make cash distributions. These measurements do not reflect cash expenditures for long-term assets and other items that have been and will be incurred. FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions, and other commitments and uncertainties.

We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (NAREIT), which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, impairment write-downs, items classified by GAAP as extraordinary, the cumulative effect of changes in accounting principles, plus depreciation and amortization (excluding amortization of deferred financing costs), and after adjustments for unconsolidated partnerships and joint ventures following the same approach. We believe that the presentation of FFO provides useful information to investors regarding our operating performance because it measures our performance without regard to specified non-cash items such as real estate depreciation and amortization, gain or loss on sale of real estate assets and certain other items that we believe are not indicative of the performance of our underlying hotel properties. We believe that these items are more representative of our asset base and our acquisition and disposition activities than our ongoing operations, and that by excluding the effects of the items, FFO is useful to investors in comparing our operating performance between periods and between REITs that report FFO using the NAREIT definition.

We calculate Adjusted FFO by further adjusting FFO for certain additional items that are not in NAREIT's definition of FFO, including hotel property acquisition costs and other charges, losses on the early extinguishment of debt and similar items related to our unconsolidated real estate entities that we believe do not represent recurring operations. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs that make similar adjustments to FFO.

The following is a reconciliation of net income (loss) to FFO and Adjusted FFO for the years ended December 31, 2014, 2013 and 2012 (in thousands, except share data):

	For the year ended December 31,		
	2014	2013	2012
Funds From Operations (“FFO”):			
Net income (loss)	\$ 67,081	\$ 2,982	\$ (1,450)
Noncontrolling interest	(208)	—	—
Net gain from remeasurement and sale of investment in unconsolidated real estate entities	(65,750)	—	—
Loss (gain) on the sale of assets within the unconsolidated real estate entity	1	252	(257)
Depreciation	34,579	18,162	14,198
Adjustments for unconsolidated real estate entity items	4,902	5,055	5,340
FFO attributed to common shareholders	40,605	26,451	17,831
Hotel property acquisition costs and other charges	10,381	3,341	236
Loss on early extinguishment of debt	184	933	—
Adjustments for unconsolidated real estate entity items	3,932	964	49
Adjusted FFO	\$ 55,102	\$ 31,689	18,116
Weighted average number of common shares			
Basic	28,531,094	21,035,892	13,811,691
Diluted	28,846,724	21,283,831	13,937,726

Diluted per share count may differ from GAAP per share count when FFO or Adjusted FFO is positive. Unvested restricted shares and unvested long-term incentive plan units (“LTIP units”) that could potentially dilute basic earnings per share in the future were not included in the computation of diluted loss per share for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented.

We calculate EBITDA for purposes of the credit facility debt covenants as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; (3) depreciation and amortization; and (4) unconsolidated real estate entity items including interest, depreciation and amortization excluding gains or losses from sales of real estate. We believe EBITDA is useful to investors in evaluating our operating performance because it helps investors compare our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, we use EBITDA as one measure in determining the value of hotel acquisitions and dispositions.

We calculate Adjusted EBITDA by further adjusting EBITDA for certain additional items, including hotel property acquisition costs and other charges, gains or losses on the sale of real estate, losses on the early extinguishment of debt, amortization of non-cash share-based compensation and similar items related to our unconsolidated real estate entities which we believe are not indicative of the performance of our underlying hotel properties entities. We believe that Adjusted EBITDA provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs that report similar measures.

The following is a reconciliation of net income (loss) to EBITDA and Adjusted EBITDA for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	For the year ended December 31,		
	2014	2013	2012
Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”):			
Net income (loss)	\$ 67,081	\$ 2,982	\$(1,450)
Interest expense	21,354	11,580	14,641
Income tax expense	105	124	75
Depreciation and amortization	34,710	18,249	14,273
Adjustments for unconsolidated real estate entity items	10,211	10,934	11,319
Noncontrolling interest	(208)	—	—
EBITDA	133,253	43,869	38,858
Hotel property acquisition costs and other charges	10,381	3,341	236
Loss on early extinguishment of debt	184	933	—
Adjustments for unconsolidated real estate entity items	4,053	964	49
Net gain from remeasurement and sale of investment in unconsolidated real estate entities	(65,750)	—	—
Loss (gain) on the sale of assets within the unconsolidated real estate entity	1	252	(257)
Share based compensation	2,469	2,086	2,004
Adjusted EBITDA	\$ 84,591	\$51,445	\$40,890

The following is a presentation of Hotel EBITDA for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	For the year ended December 31,		
	2014	2013	2012
Total revenue	197,216	126,228	100,464
Less: total hotel operating expense	100,961	68,596	55,030
Gross operating income	96,255	57,632	45,434
Less: property taxes and insurance	12,624	8,915	7,088
Hotel EBITDA	\$ 83,631	\$ 48,717	\$ 38,346

We present Hotel EBITDA because we believe it is useful to investors in comparing our hotel operating performance between periods and comparing our Hotel EBITDA margins to those of our peer companies. Hotel EBITDA represents the results of operations for our wholly owned hotels only.

Although we present FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA because we believe they are useful to investors in comparing our operating performance between periods and between REITs that report similar measures, these measures have limitations as analytical tools. Some of these limitations are:

- FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA do not reflect our cash expenditures or future requirements, for capital expenditures or contractual commitments;
- FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA do not reflect funds available to make cash distributions;

- EBITDA, Adjusted EBITDA and Hotel EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may need to be replaced in the future, and FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA do not reflect any cash requirements for such replacements;
- Non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period using Adjusted EBITDA;
- Adjusted FFO, Adjusted EBITDA and Hotel EBITDA do not reflect the impact of certain cash charges (including acquisition transaction costs) that result from matters we consider not to be indicative of the underlying performance of our hotel properties; and
- Other companies in our industry may calculate FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA differently than we do, limiting their usefulness as a comparative measure.

In addition, FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA do not represent cash generated from operating activities as determined by GAAP and should not be considered as alternatives to net income or loss, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA are not measures of our liquidity. Because of these limitations, FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Hotel EBITDA only supplementally. Our consolidated financial statements and the notes to those statements included elsewhere are prepared in accordance with GAAP.

Sources and Uses of Cash

Our principal sources of cash include net cash from operations and proceeds from debt and equity issuances. Our principal uses of cash include acquisitions, capital expenditures, operating costs, corporate expenditures, interest costs and debt repayments and distributions to equity holders.

As of December 31, 2014 and December 31, 2013, we had cash and cash equivalents of approximately \$15.1 million and \$4.2 million, respectively. As of December 31, 2014, we are required to maintain at least a total of \$10.0 million of unrestricted cash and cash equivalents under certain non-recourse covenant guarantees related to debt in the NewINK JV and the Inland JV. Additionally, we had \$152.5 million available under our \$175.0 million senior secured revolving credit facility as of December 31, 2014.

For the year ended December 31, 2014, net cash flows provided by operations were \$49.3 million, driven by net income of \$67.1 million, offset by \$42.7 million of non-cash items, including \$36.2 million of depreciation and amortization, \$0.2 million of the extinguishment of debt, \$2.5 million of share-based compensation expense and \$3.8 million related to the loss from unconsolidated entities, offset by a net gain from the sale of interests in unconsolidated real estate entities of \$65.8 million. In addition, changes in operating assets and liabilities due to the timing of cash receipts, payment for real estate taxes, payments of corporate compensation and payments from our hotels resulted in net cash inflow of \$5.3 million. Net cash flows used in investing activities were \$452.9 million, primarily related to the purchase of the four Silicon Valley hotels, the Cherry Creek hotel and the four hotels acquired from Inland for \$404.7 million, investment in the Inland JV of \$28.0 million, capital improvements on our 34 wholly owned hotels of \$14.9 million, \$7.4 million related to required escrow deposits included in restricted cash, reduced by distributions of \$2.1 million received from unconsolidated real estate entities. Net cash flows provided by financing activities were \$414.5 million, comprised of proceeds from the issuance of new mortgage loans of \$340.5 million, net proceeds of \$150.7 million raised from our September

2014 follow-on common share offerings, \$20.8 million raised from our ATM Plan, net repayments on our secured credit facility of \$27.5 million, principal payments or payoffs on mortgage debt of \$34.8 million, payments of deferred financing and offering costs of \$8.7 million and distributions to shareholders of \$26.5 million.

For the year ended December 31, 2013, net cash and net cash inflows provided by operations were \$31.6 million, driven by net income of \$3.0 million, non-cash expenses of \$24.3 million, changes in operating assets and liabilities in net cash inflow of \$4.3 million. Net cash flows used in investing activities were \$235.2 million, primarily related to the purchase of the Courtyard Houston, Pittsburgh, Exeter, Denver Tech, Bellevue and Savannah hotels for \$229.6 million, capital improvements on our 25 wholly owned hotels of \$16.2 million, investment in the Torrance JV of \$1.6 million, \$1.7 million related to the required escrow deposits of restricted cash, reduced by distributions of \$13.9 million from unconsolidated real estate entities. Net cash flows provided by financing activities were \$203.3 million, comprised primarily of net proceeds of \$192.4 million raised from our January, June and September 2013 follow-on common share offerings, and proceeds from the issuance of new mortgage loans of \$164.6 million, offset by net repayments on our secured credit facility of \$29.5 million, principal payments or payoffs on mortgage debt of \$102.3 million, payments of deferred financing costs of \$2.4 million and distributions to shareholders of \$19.4 million.

For the year ended December 31, 2012, net cash flows provided by operations were \$14.9 million, comprised of a net loss of \$1.5 million and primarily significant non-cash expenses, including \$16.1 million of depreciation and amortization, \$2.0 million of share-based compensation expense and \$1.5 million related to a loss from unconsolidated entities. In addition, changes in operating assets and liabilities due to the timing of cash receipts, payments for real estate taxes, payments of corporate compensation and payments from our hotels resulted in net cash outflow of \$3.2 million. Net cash flows used in investing activities were \$13.0 million, comprised of distributions of \$21.2 million from unconsolidated real estate entities consisting of \$11.7 million of net proceeds from mortgage financing, \$4.4 million attributable to cash generated from the operations of the Innkeepers JV and \$5.1 million for the sale of assets and reimbursements from required escrows of \$2.4 million. Future distributions from unconsolidated real estate entities are contingent upon projected hotel operations and the potential sale of assets, offset by additional capital improvements to the 18 hotels owned during 2012 (excluding the Portland hotel acquired in December 2012) of \$8.6 million and \$28.0 million related to the purchase of the Portland hotel. Net cash flows used in financing activities were \$2.0 million, comprised of principal payments on mortgage debt of \$1.7 million, payment of deferred financing and offering costs of \$1.7 million and distributions to shareholders of \$10.6 million, offset by net borrowings on our secured credit facility of \$12.0 million.

We paid regular quarterly dividends and distributions on common shares and LTIP units beginning with the third quarter of 2010 through 2012. In January 2013, we changed our dividend payment frequency from a quarterly dividend to a monthly dividend. Dividends and distributions for the first quarter of 2012 were \$0.175 per common share and LTIP unit. Dividends and distributions for the second, third and fourth quarters of 2012 increased to \$0.20 per common share and LTIP unit. We declared total dividends of \$0.07 per common share and LTIP unit for each month of 2013. We declared total dividends of \$0.07 per common share and LTIP unit for the first three months of 2014. In April 2014, we changed the monthly dividend and distribution from \$0.07 to \$0.08 per common share and LTIP unit. On January 30, 2015, we paid an aggregate of \$2.8 million in dividends on our common shares and distributions on our LTIP units attributable to the December 2014 monthly dividend.

Liquidity and Capital Resources

We plan to maintain a prudent capital structure and intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) at a level that will be lower than the level at which we currently operate. A subsequent decrease in hotel property values will not necessarily cause us

to repay debt to comply with this limitation. While we intend to maintain our leverage over the long term at lower levels, our Board of Trustees believes that maintaining higher leverage levels at this stage of the lodging cycle is appropriate, as interest rates on a historical basis are very attractive. At December 31, 2014, our leverage ratio was approximately 44 percent, which increased from 36 percent at December 31, 2013. Over time, we intend to finance our growth with issuances of common shares, preferred shares and debt. Our debt may include mortgage debt collateralized by our hotel properties and unsecured debt.

At December 31, 2014 and 2013, we had \$22.5 million and \$50.0 million, respectively, in borrowings under our senior secured revolving credit facility. At December 31, 2014, there were 10 properties in the borrowing base under the credit agreement and the maximum borrowing availability under the senior secured revolving credit facility was \$175.0 million. We also had mortgage debt on individual hotels aggregating \$527.7 million and \$222.1 million at December 31, 2014 and 2013, respectively.

The Company entered into an amendment (the “Amendment”) to its amended and restated senior secured revolving credit facility on December 11, 2013. The Amendment extends the maturity date to November 5, 2016 and includes the Company’s option to extend the maturity date by an additional year. Other key terms are as follows:

Facility amount	\$175 million
Accordion feature	Increase additional \$50 million
LIBOR floor	None
Interest rate applicable margin	200-300 basis points, based on leverage ratio
Unused fee	25 basis points if less than 50% unused, 35 basis points if more than 50% unused
Minimum fixed charge coverage ratio	1.5x

The credit facility contains representations, warranties, covenants, terms and conditions customary for transactions of this type, including a maximum leverage ratio, a minimum fixed charge coverage ratio and minimum net worth financial covenants, limitations on (i) liens, (ii) incurrence of debt, (iii) investments, (iv) distributions, and (v) mergers and asset dispositions, covenants to preserve corporate existence and comply with laws, covenants on the use of proceeds of the credit facility and default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, non-performance of covenants, cross-defaults and guarantor defaults. Such limitations on distributions also includes a limitation on the extent of allowable distributions from the operating partnership to the Company not to exceed the greater of 95% of FFO and the minimum amount of distributions required for the Company to maintain its REIT status. We were in compliance with all financial covenants at December 31, 2014.

In January 2014, we established a \$25 million DRSP. Under the DRSP, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on our common shares. Shareholders may also make optional cash purchases of our common shares subject to certain limitations detailed in the prospectus for the DRSP. As of December 31, 2014 and 2013, respectively, we had issued 2,083 and 0 shares under the DRSP at a weighted average price of \$24.38. As of December 31, 2014, there was approximately \$24.9 million of commons shares available for issuance under the DRSP.

In January 2014, we established an ATM Plan whereby, from time to time, we may publicly offer and sell up to \$50 million of our common shares by means of ordinary brokers’ transactions on the New York Stock Exchange (the “NYSE”), in negotiated transactions or in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act, with Cantor Fitzgerald & Co. (“Cantor”) acting as sales agent. As of December 31, 2014 and 2013, respectively, we had issued 880,820 and 0 shares under the ATM Plan at a weighted average price of \$23.54 in addition to the offerings discussed above. As of December 31, 2014, there was approximately \$29.3 million commons shares available for issuance under the ATM Plan.

On January 13, 2015, the Company entered into a Sales Agreement (the “Barclays Sales Agreement”) with Barclays Capital Inc. (“Barclays”) to add Barclays as an additional sales agent under the Company’s existing “at-the-market” offering program for its common shares of beneficial interest, par value \$0.01 per share (the “Common Shares”).

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our credit facility or through the encumbrance of any unencumbered hotels. We believe that our net cash provided by operations will be adequate to fund operating obligations, pay interest on any borrowings and fund dividends in accordance with the requirements for qualification as a REIT under the Code. We expect to meet our long-term liquidity requirements, such as hotel property acquisitions and debt maturities or repayments through additional long-term secured and unsecured borrowings, the issuance of additional equity or debt securities or the possible sale of existing assets.

We intend to continue to invest in hotel properties or joint ventures only as suitable opportunities arise. We intend to finance our future investments with the net proceeds from additional issuances of common and preferred shares, issuances of units of limited partnership interest in our Operating Partnership or other securities or borrowings. The success of our acquisition strategy depends, in part, on our ability to access additional capital through issuances of equity securities and borrowings. There can be no assurance that we will continue to make investments in properties that meet our investment criteria. Additionally, we may choose to dispose of certain hotels that do not meet our long-term investment objectives as a means to provide liquidity.

Capital Expenditures

We intend to maintain each hotel property in good repair and condition and in conformity with applicable laws and regulations and in accordance with the franchisor’s standards and any agreed-upon requirements in our management and loan agreements. After we acquire a hotel property, we may be required to complete a property improvement plan (“PIP”) in order to be granted a new franchise license for that particular hotel property. PIPs are intended to bring the hotel property up to the franchisor’s standards. Certain of our loans require that we escrow for property improvement purposes, at the hotels collateralizing these loans, amounts up to 5% of gross revenue from such hotels. We intend to spend amounts necessary to comply with any reasonable loan or franchisor requirement and otherwise to the extent that such expenditures are in the best interest of the hotel. To the extent that we spend more on capital expenditures than is available from our operations, we intend to fund those capital expenditures with available cash and borrowings under our senior secured revolving credit facility.

For the years ended December 31, 2014 and 2013, we invested approximately \$14.9 million and \$16.2 million, respectively, on capital projects in our hotels. We expect to invest \$16.8 million on capital improvements to our existing hotels in 2015, including improvements required under any brand required PIP.

The Company is planning to develop and expand all four hotels that comprise the Silicon Valley Hotels to increase the aggregate room count by 36% to a total of 1,023 rooms. The 272 room expansion, which would take approximately 12 months from commencement date at each location once all approvals are obtained, is expected to include a new lobby and public spaces in each location with an estimated aggregate cost of approximately \$59.0 million, or approximately \$217,000 per room.

Related Party Transactions

We have entered into transactions and arrangements with related parties that could result in potential conflicts of interest. See “Risks Related to Our Business” and Note 13, “Related Party Transactions”, to our consolidated financial statements included in this Annual Report on Form 10-K.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2014, and the effect these obligations are expected to have on our liquidity and cash flow in future periods (in thousands). We had no other material off-balance sheet arrangements at December 31, 2014 other than non-recourse debt associated with the NewINK JV, Inland JV and the Torrance JV as discussed below.

Contractual Obligations	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Corporate office lease	\$ 69	\$ 69	\$ —	\$ —	\$ —
Revolving credit facility, including interest (1)	24,675	1,135	23,540	—	—
Ground leases	12,081	210	426	436	11,009
Property loans, including interest (1)	722,365	32,545	61,138	57,641	571,041
Total	<u>\$759,190</u>	<u>\$33,959</u>	<u>\$85,104</u>	<u>\$58,077</u>	<u>\$582,050</u>

- (1) Does not reflect paydowns or additional borrowings under the revolving credit facility after December 31, 2014. Interest payments are based on the interest rate in effect as of December 31, 2014. See Note 6, “Debt” to our consolidated financial statements for additional information relating to our property loans.

In addition, we pay management and franchise fees to our hotel management companies and franchisors based on the revenues of our hotels.

The Company’s ownership interests in the NewINK JV, Inland JV and the Torrance JV are subject to change in the event that either we, NorthStar or Cerberus calls for additional capital contributions to the respective JVs, as applicable, necessary for the conduct of that JV’s business, including contributions to fund costs and expenses related to capital expenditures. We manage the NewINK, Inland and Torrance JVs and will receive a promote interest in the applicable JV if it meets certain return thresholds. NorthStar and Cerberus may also approve certain actions by their respective JV or JVs without the Company’s consent, including certain property dispositions conducted at arm’s length, certain actions related to the restructuring of the respective JVs and removal of the Company as managing member in the event the Company fails to fulfill its material obligations under the respective joint venture agreements.

In connection with certain non-recourse mortgage loans in the NewINK JV, Inland JV or Torrance JV, our Operating Partnership could require us to repay our pro rata share of portions of each respective JV’s indebtedness in connection with certain customary non-recourse carve-out provisions such as environmental conditions, misuse of funds and material misrepresentations.

Inflation

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

Critical Accounting Policies

We consider the following policies critical because they require estimates about matters that are inherently uncertain, involve various assumptions and require management judgment. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

Investment in Hotel Properties

We allocate the purchase prices of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, identifiable intangible assets and assumed liabilities. In making estimates of fair value for purposes of allocating the purchase price, we utilize a number of sources of information that are obtained in connection with the acquisition of a hotel property, including valuations performed by independent third parties and information obtained about each hotel property resulting from pre-acquisition due diligence. Hotel property acquisition costs, such as transfer taxes, title insurance, environmental and property condition reviews, and legal and accounting fees, are expensed in the period incurred.

Our hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for land improvements, 15 years for building improvements and one to seven years for furniture, fixtures and equipment. Renovations and/or replacements at the hotel properties that improve or extend the life of the assets are capitalized and depreciated over their useful lives, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the Company's accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

Our hotel properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When this conditions exist, management will perform an analysis to determine if the estimated undiscounted future cash flows, without interest charges, from operations and the proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value is recorded and an impairment loss recognized. As of December 31, 2014 and 2013, we had no hotels that were impaired.

For properties the Company considers held for sale, depreciation and amortization are no longer recorded and the value the properties is recorded at the lower of depreciated cost or fair value, less costs to sell. If circumstances arise that were previously considered unlikely, and, as a result, the Company decides not to sell a property previously classified as held for sale, the Company will reclassify such property as held and used. Such property is measured at the lower of its carrying amount (adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used) or fair value at the date of the subsequent decision not to sell. The Company classifies properties as held for sale when all criteria within the FASB's guidance on the impairment or disposal of long-lived assets are met. As of December 31, 2014, we had no hotel properties held for sale.

Investment in Unconsolidated Real Estate Entities

If it is determined that the Company does not have a controlling interest in a joint venture, either through its financial interest in a variable investment entity ("VIE") or in a voting interest entity, the equity method of accounting is used if the company has the ability to exercise significant influence. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, advances to and commitments for the investee.

Investment in unconsolidated real estate entities are accounted for under the equity method of accounting and the Company records its equity in earnings or losses under the hypothetical liquidation of book value ("HLBV") method of accounting due to the structures and the preferences we receive on the distributions from the joint ventures pursuant to the joint venture agreements. Under this method, the Company recognizes income and loss in each period based on the change in liquidation proceeds we would receive from a hypothetical

liquidation of our investment based on depreciated book value. Therefore, income or loss may be allocated disproportionately as compared to the ownership percentages due to specified preferred return rate thresholds and may be more or less than actual cash distributions received and more or less than what the Company may receive in the event of an actual liquidation. In the event a basis difference is created between the carrying amount of the Company's share of partner's capital, the resulting amount is allocated based on the assets of the investee and, if assigned to depreciable or amortizable assets, then amortized as a component of income (loss) from unconsolidated real estate entities.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, the Company will estimate the fair value of the investment. The Company's estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount over the fair value of the Company's investment in the unconsolidated joint venture.

Revenue Recognition

Revenue from hotel operations is recognized when rooms are occupied and when services are provided. Revenue consists of amounts derived from hotel operations, including sales from room, meeting room, gift shop, in-room movie and other ancillary amenities. Sales, use, occupancy, and similar taxes are collected and presented on a net basis (excluded from revenues) in the accompanying consolidated statements of operations.

Share-Based Compensation

We measure compensation expense for the restricted share awards and LTIP units based upon the fair market value of our common shares at the date of grant. Compensation expense is recognized on a straight-line basis over the vesting period and is included in general and administrative expense in the accompanying consolidated statement of operations. We pay dividends on vested and nonvested restricted shares, except for performance based shares for which dividends on unvested shares are not paid until these shares are vested.

Income Taxes

We elected to be taxed as a REIT for federal income tax purposes commencing with our 2010 taxable year. In order to qualify as a REIT under the Code, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to our shareholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, we generally will not be subject to federal income tax to the extent we currently distribute our taxable income to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to shareholders. However, we believe we have been organized and that we operate in such a manner as to qualify for treatment as a REIT.

Recently Issued Accounting Standards

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results or a business activity classified as held for sale upon acquisition should be reported as discontinued operations. The amendments also

expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014. Early adoption is only permitted for disposals that have not been reported in financial statements previously issued. We adopted this accounting standard update effective January 1, 2014 and the implementation of the amended guidance did not have a material impact on the Company's consolidated financial position or results of operations, but do expect these amendments to impact the Company's determination of which future property disposals qualify as discontinued operations as well as requiring additional disclosures about discontinued operations.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to perform interim and annual assessments of an entity's ability to continue within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This guidance is effective for the Company on January 1, 2017 and will not have an impact on the Company's financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02 Amendments to the Consolidation Analysis, which requires amendments to both the variable interest entity and voting models. The amendments (i) rescind the indefinite deferral of certain aspects of accounting standards relating to consolidations and provide a permanent scope exception for registered money market funds and similar unregistered money market funds, (ii) modify the identification of variable interests (fees paid to a decision maker or service provider), the VIE characteristics for a limited partnership or similar entity and primary beneficiary determination under the VIE model, and (iii) eliminate the presumption within the current voting model that a general partner controls a limited partnership or similar entity. The new guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2015 with early adoption permitted. The amendments may be applied using either a modified retrospective or full retrospective approach. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk.*

We may be exposed to interest rate changes primarily as a result of our assumption of long-term debt in connection with our acquisitions. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we will seek to borrow primarily at fixed rates or variable rates with the lowest margins available and, in some cases, with the ability to convert variable rates to fixed rates. With respect to variable rate financing, we will assess interest rate risk by identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates. Rates take into consideration general market conditions and maturity and fair value of the underlying collateral. The estimated fair value of the Company's fixed rate debt at December 31, 2014 and December 31, 2013 was \$542.5 million and \$220.0 million, respectively.

At December 31, 2014, our consolidated debt was comprised of floating and fixed interest rate debt. The fair value of our fixed rate debt indicates the estimated principal amount of debt having the same debt service requirements that could have been borrowed at the date presented, at then current market interest rates. The following table provides information about the maturities of our financial instruments that are sensitive to changes in interest rates (in thousands):

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Floating rate:								
Debt	—	\$22,500	—	—	—	—	\$ 22,500	\$ 22,498
Average interest rate (1)	—	2.67%	—	—	—	—	2.67%	
Fixed rate:								
Debt	\$8,062	\$ 9,478	\$3,971	\$5,012	\$7,046	\$494,152	\$527,721	\$542,538
Average interest rate	5.43%	5.36%	4.77%	4.69%	4.68%	4.65%	4.68%	

(1) LIBOR of 0.17% plus a margin of 2.50% at December 31, 2014.

We estimate that a hypothetical 100 basis points increase in the variable interest rate would result in additional interest expense of approximately \$0.2 million annually. This assumes that the amount outstanding under our floating rate debt remains \$22.5 million, the balance as of December 31, 2014.

Item 8. Consolidated Financial Statements and Supplementary Data

See our Consolidated Financial Statements and the Notes thereto beginning at page F-1 included in Item 15, which is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management 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 last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. A company’s internal control over financial reporting is a process designed to provide reasonable

assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control-Integrated Framework” (2013 framework). Based on our assessment, management has concluded that, as of December 31, 2014, our internal control over financial reporting is effective, based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2014, has been audited by PricewaterhouseCoopers LLP, an independent registered certified public accounting firm, as stated in their report, which appears on page F-2 of this Annual Report on Form 10-K.

Item 9B. *Other Information*

None.

Part III

Item 10. *Trustees, Executive Officers and Corporate Governance*

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015.

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015.

Item 13. *Certain Relationships and Related Transactions, and Trustee Independence*

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2015 Annual Meeting of Shareholders to be held on May 21, 2015.

PART IV

Item 15, *Exhibits and Financial Statement Schedules*

1. Financial Statements

Included herein at pages F-1 through F-7

2. Financial Statement Schedules

The following financial statement schedule is included herein at page F-7:

Schedule III — Real Estate and Accumulated Depreciation

2(a). Individual financial statements of entities accounted for by the equity method that qualify as significant subsidiaries for the year ended December 31, 2014 have either been included as an exhibit herein or it has been determined that inclusion of such financial statements is not required at this time. Audited financial statements of INK Acquisitions LLC and Affiliates and IHP I Owner JV, LLC and Affiliates, will be filed as an exhibit to an amended Form 10-K within 90 days of their December 31, 2014 fiscal year end.

All other schedules for which provision is made in Regulation S-X are either not required to be included herein under the related instructions or are inapplicable or the related information is included in the footnotes to the applicable financial statement and, therefore, have been omitted.

3. Exhibits

A list of exhibits required to be filed as part of this report on Form 10-K is set forth in the Exhibit Index, which immediately follows this item.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Declaration of Trust of Chatham Lodging Trust ⁽¹⁾
3.2	Articles Supplementary ⁽³⁾
3.3	Amended and Restated Bylaws of Chatham Lodging Trust ⁽⁴⁾
10.1*	Chatham Lodging Trust Equity Incentive Plan, Amended and Restated as of May 17, 2013 ⁽⁵⁾
10.2(a)*	Form of Employment Agreement between Chatham Lodging Trust and Jeffrey H. Fisher ⁽¹⁾
10.2(b)*	Form of Employment Agreement between Chatham Lodging Trust and Peter Willis ⁽¹⁾
10.2(c)*	Form of Employment Agreement between Chatham Lodging Trust and Dennis M. Craven ⁽⁶⁾
10.3*	Form of Indemnification Agreement between Chatham Lodging Trust and its officers and trustees ⁽¹⁾
10.4*	Form of LTIP Unit Vesting Agreement ⁽¹⁾
10.5*	Form of Share Award Agreement for Trustees ⁽¹⁾
10.6*	Form of Share Award Agreement for Officers ⁽²⁾
10.7*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Jeffrey H. Fisher ⁽⁷⁾
10.8*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Dennis M. Craven ⁽⁷⁾
10.9*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Peter Willis ⁽⁷⁾
10.10*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Jeffrey H. Fisher (Performance-Based Share Awards) ⁽⁷⁾
10.11*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Dennis M. Craven (Performance-Based Share Awards) ⁽⁷⁾
10.12*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Peter Willis (Performance-Based Share Awards) ⁽⁷⁾
10.13	Agreement of Limited Partnership of Chatham Lodging, L.P. ⁽¹⁾
10.14	Form of IHM Hotel Management Agreement ⁽¹⁾
10.15	Amended and Restated Credit Agreement, dated as of November 5, 2012, among Chatham Lodging Trust, Chatham Lodging, L.P., as borrower, the lenders and other guarantors party thereto and Barclays Bank PLC, as administrative agent ⁽⁸⁾
10.16	Form of Amended and Restated Limited Liability Company Agreement of INK Acquisition II LLC, dated October 27, 2011, by and among CRE-Ink Member II Inc. and Chatham TRS Holding Inc. ⁽⁹⁾
10.17	First Amendment to Amended and Restated Credit Agreement, dated as of December 11, 2013, among Chatham Lodging Trust, Chatham Lodging, L.P., as borrower, the lenders party thereto and Barclays Bank PLC, as administrative agent ⁽¹⁰⁾
10.18	Purchase and Sale agreement, dated May 8, 2014, by and among the entities set forth on Schedule A thereto, Chatham Lodging, LP, NewINK JV and certain individual owners. ⁽¹¹⁾
10.19	Third Amended and Restated Limited Liability Company Agreement of INK Acquisition LLC, dated as of June 9, 2014, by and between Platform Member-T, LLC and Chatham Lodging, L.P. ⁽¹¹⁾

Exhibit Number	Description of Exhibit
10.20	Second Amended and Restate Limited Liability Company Agreement of INK Acquisition III, LLC, dated as of June 9, 2014, by and between Platform Member Holdings-T Cam2, LLC and Chatham TRS Holding, Inc. ⁽¹¹⁾
10.21	Loan Agreement, dated as of June 9, 2014, between Grand Prix Sili II, LLC, as borrower, and JP Morgan Chase Bank, National Association, as lender. ⁽¹¹⁾
10.22	Sales Agreement, dated January 31, 2014, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Cantor Fitzgerald & Co. ⁽¹²⁾
10.23	Limited Liability Company Agreement of IHP I Owner JV, LLC, dated as of November 17, 2014, by and between Platform Member II-T, LLC and Chatham IHP, LLC. ⁽¹³⁾
10.24	Limited Liability Company Agreement of IHP I Owner OPs JV, LLC, dated as of November 17, 2014, by and between Platform Member Holdings II-T Cam2, LLC and Chatham TRS Holding, Inc. ⁽¹³⁾
10.25	Sales Agreement, dated January 13, 2015 by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Barclays Capital Inc. ⁽¹⁴⁾
10.26*	First Amendment to Employment Agreement of Peter Willis dated January 30, 2015. ⁽¹⁵⁾
10.27*	First Amendment to Employment Agreement of Dennis Craven dated January 30, 2015. ⁽¹⁵⁾
12.1	Statement of computation of ratio of earnings to fixed charges and preferred share dividends
21.1	List of Subsidiaries of Chatham Lodging Trust
23.1	PricewaterhouseCoopers LLP Consent to include Report on Financial Statements of Chatham Lodging Trust
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Denotes management contract or compensation plan or arrangement in which trustees or officers are eligible to participate.

** Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

- (1) Incorporated by reference to Amendment No. 4 to the Registrant's Registration Statement on Form S-11 filed with the SEC on February 12, 2010 (File No. 333-162889).
- (2) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 13, 2010 (File No. 001-34693).
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 13, 2013.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2014.
- (5) Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed on April 15, 2013 (File No. 001-34693).
- (6) Incorporated by reference to the Registrant's Registration Statement on Form S-11 filed with the SEC on October 28, 2010 (File No. 333-170176).
- (7) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2014 (File No. 001-34693).
- (8) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 15, 2013.
- (9) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 9, 2012.
- (10) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on December 13, 2013.
- (11) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014 (File No. 001-34693).
- (12) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on January 31, 2014.
- (13) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on November 20, 2014.
- (14) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on January 15, 2015.
- (15) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on February 5, 2015.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHATHAM LODGING TRUST

Dated: March 16, 2015

/s/ JEFFREY H. FISHER

Jeffrey H. Fisher
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ JEFFREY H. FISHER</u> Jeffrey H. Fisher	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 16, 2015
<u>/s/ DENNIS M. CRAVEN</u> Dennis M. Craven	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2015
<u>/s/ MILES BERGER</u> Miles Berger	Trustee	March 16, 2015
<u>/s/ THOMAS J. CROCKER</u> Thomas J. Crocker	Trustee	March 16, 2015
<u>/s/ JACK P. DEBOER</u> Jack P. DeBoer	Trustee	March 16, 2015
<u>/s/ GLEN R. GILBERT</u> Glen R. Gilbert	Trustee	March 16, 2015
<u>/s/ C. GERALD GOLDSMITH</u> C. Gerald Goldsmith	Trustee	March 16, 2015
<u>/s/ ROBERT PERLMUTTER</u> Robert Perlmutter	Trustee	March 16, 2015
<u>/s/ ROLF E. RUHFUS</u> Rolf E. Ruhfus	Trustee	March 16, 2015
<u>/s/ JOEL F. ZEMANS</u> Joel F. Zemans	Trustee	March 16, 2015

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CHATHAM LODGING TRUST
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Report of Independent Registered Certified Public Accounting Firm

To the Board of Trustees and Shareholders of
Chatham Lodging Trust:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equity and of cash flows present fairly, in all material respects, the financial position of Chatham Lodging Trust and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Fort Lauderdale, Florida
March 16, 2015

CHATHAM LODGING TRUST
Consolidated Balance Sheets
(In thousands, except share and per share data)

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets:		
Investment in hotel properties, net	\$1,096,425	\$652,877
Cash and cash equivalents	15,077	4,221
Restricted cash	12,030	4,605
Investment in unconsolidated real estate entities	28,152	774
Hotel receivables (net of allowance for doubtful accounts of \$71 and \$30, respectively)	3,601	2,455
Deferred costs, net	7,514	7,113
Prepaid expenses and other assets	2,300	1,879
Total assets	<u>\$1,165,099</u>	<u>\$673,924</u>
Liabilities and Equity:		
Mortgage debt	\$ 527,721	\$222,063
Revolving credit facility	22,500	50,000
Accounts payable and accrued expenses	20,042	12,799
Distributions and losses in excess of investments of unconsolidated real estate entities	—	1,576
Distributions payable	2,884	1,950
Total liabilities	<u>573,147</u>	<u>288,388</u>
Commitments and contingencies		
Equity:		
Shareholders' Equity:		
Preferred shares, \$0.01 par value, 100,000,000 shares authorized and unissued at December 31, 2014 and 2013	—	—
Common shares, \$0.01 par value, 500,000,000 shares authorized; 34,173,691 and 26,295,558 shares issued and outstanding at December 31, 2014 and 2013, respectively	339	261
Additional paid-in capital	599,318	433,900
Accumulated deficit	(11,120)	(50,792)
Total shareholders' equity	<u>588,537</u>	<u>383,369</u>
Noncontrolling Interests:		
Noncontrolling interest in operating partnership	3,415	2,167
Total equity	<u>591,952</u>	<u>385,536</u>
Total liabilities and equity	<u>\$1,165,099</u>	<u>\$673,924</u>

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

CHATHAM LODGING TRUST
Consolidated Statements of Operations
(In thousands, except share and per share data)

	For the year ended		
	December 31,		
	2014	2013	2012
Revenue:			
Room	\$ 184,926	\$ 118,169	\$ 94,566
Food and beverage	2,764	1,311	253
Other	7,534	5,113	4,023
Cost reimbursements from unconsolidated real estate entities	1,992	1,635	1,622
Total revenue	197,216	126,228	100,464
Expenses:			
Hotel operating expenses:			
Room	37,516	25,709	20,957
Food and beverage expense	1,966	944	307
Telephone expense	1,304	899	718
Other hotel operating expense	2,056	1,580	1,508
General and administrative	16,265	11,529	9,320
Franchise and marketing fees	15,110	9,394	7,529
Advertising and promotions	3,676	2,782	2,257
Utilities	7,269	4,955	4,081
Repairs and maintenance	8,705	6,310	4,958
Management fees	6,096	3,752	2,872
Insurance	998	742	523
Total hotel operating expenses	100,961	68,596	55,030
Depreciation and amortization	34,710	18,249	14,273
Property taxes and insurance	12,624	8,915	7,088
General and administrative	9,852	8,131	7,565
Hotel property acquisition costs and other charges	10,381	3,341	236
Reimbursable costs from unconsolidated real estate entities	1,992	1,635	1,622
Total operating expenses	170,520	108,867	85,814
Operating income	26,696	17,361	14,650
Interest and other income	108	132	55
Interest expense, including amortization of deferred fees ..	(21,354)	(11,580)	(14,641)
Loss on early extinguishment of debt	(184)	(933)	—
Loss from unconsolidated real estate entities	(3,830)	(1,874)	(1,439)
Net gain from remeasurement and sale of investment in unconsolidated real estate entities	65,750	—	—
Income (loss) before income tax expense	67,186	3,106	(1,375)
Income tax expense	(105)	(124)	(75)
Net income (loss)	67,081	2,982	(1,450)
Net income attributable to non-controlling interest	(208)	—	—
Net income attributable to common shareholders	\$ 66,873	\$ 2,982	\$ (1,450)
Income per Common Share — Basic:			
Net income (loss) attributable to common shareholders (Note 10)	\$ 2.32	\$ 0.13	\$ (0.12)
Income per Common Share — Diluted:			
Net income (loss) attributable to common shareholders (Note 10)	\$ 2.30	\$ 0.13	\$ (0.12)
Weighted average number of common shares outstanding:			
Basic	28,531,094	21,035,892	13,811,691
Diluted	28,846,724	21,283,831	13,811,691

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

CHATHAM LODGING TRUST
Consolidated Statements of Equity
(In thousands, except share and per share data)

	Common Shares		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity	Noncontrolling Interest in Operating Partnership	Total Equity
	Shares	Amount					
Balance January 1, 2012	13,819,939	\$137	\$239,173	\$(23,220)	\$216,090	\$1,028	\$217,118
Issuance of shares pursuant to Equity							
Incentive Plan	27,592	—	300	—	300	—	300
Issuance of restricted time-based shares	61,376	—	—	—	—	—	—
Amortization of share based compensation	—	—	882	—	882	781	1,663
Dividends declared on common shares (\$0.775 per share)	—	—	—	(10,821)	(10,821)	—	(10,821)
Distributions declared on LTIP units (\$0.775 per unit)	—	—	—	—	—	(198)	(198)
Net loss	—	—	—	(1,450)	(1,450)	—	(1,450)
Balance, December 31, 2012	<u>13,908,907</u>	<u>\$137</u>	<u>\$240,355</u>	<u>\$(35,491)</u>	<u>\$205,001</u>	<u>\$1,611</u>	<u>\$206,612</u>
Issuance of shares pursuant to Equity							
Incentive Plan	22,536	—	337	—	337	—	337
Issuance of shares, net of offering costs of \$10,388	12,306,000	124	192,239	—	192,363	—	192,363
Issuance of restricted time-based shares	40,829	—	—	—	—	—	—
Issuance of performance based shares	17,731	—	—	—	—	—	—
Repurchase of common shares	(445)	—	(7)	—	(7)	—	(7)
Amortization of share based compensation	—	—	966	—	966	782	1,748
Dividends declared on common shares (\$0.84 per share)	—	—	—	(18,283)	(18,283)	—	(18,283)
Distributions declared on LTIP units (\$0.84 per unit)	—	—	—	—	—	(216)	(216)
Reallocation of noncontrolling interest	—	—	10	—	10	(10)	—
Net income	—	—	—	2,982	2,982	—	2,982
Balance, December 31, 2013	<u>26,295,558</u>	<u>\$261</u>	<u>\$433,900</u>	<u>\$(50,792)</u>	<u>\$383,369</u>	<u>\$2,167</u>	<u>\$385,536</u>
Issuance of shares pursuant to Equity							
Incentive Plan	16,542	—	337	—	337	—	337
Issuance of shares, net of offering costs of \$7,153	7,782,903	78	164,321	—	164,399	—	164,399
Issuance of restricted time-based shares	48,213	—	—	—	—	—	—
Issuance of performance based shares	31,342	—	—	—	—	—	—
Repurchase of common shares	(867)	—	(18)	—	(18)	—	(18)
Amortization of share based compensation	—	—	1,275	—	1,275	783	2,058
Dividends declared on common shares (\$0.93 per share)	—	—	—	(27,201)	(27,201)	—	(27,201)
Distributions declared on LTIP units (\$0.93 per unit)	—	—	—	—	—	(240)	(240)
Reallocation of noncontrolling interest	—	—	(497)	—	(497)	497	—
Net income	—	—	—	66,873	66,873	208	67,081
Balance, December 31, 2014	<u>34,173,691</u>	<u>\$339</u>	<u>\$599,318</u>	<u>\$(11,120)</u>	<u>\$588,537</u>	<u>\$3,415</u>	<u>\$591,952</u>

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

CHATHAM LODGING TRUST
Consolidated Statements of Cash Flows
(In thousands)

	For the year ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	\$ 67,081	\$ 2,982	\$ (1,450)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	34,579	18,162	14,198
Amortization of deferred franchise fees	131	87	75
Amortization of deferred financing fees included in interest expense	1,532	1,088	1,840
Net gain from remeasurement and sale of investment in unconsolidated real estate entities	(65,750)	—	—
Loss on early extinguishment of debt	184	933	—
Loss on write-off of deferred franchise fee	—	64	—
Share based compensation	2,471	2,085	2,003
Loss from unconsolidated real estate entities	3,830	1,874	1,439
Changes in assets and liabilities:			
Hotel receivables	243	(68)	(41)
Deferred costs	(754)	(493)	(148)
Prepaid expenses and other assets	(118)	338	(428)
Accounts payable and accrued expenses	5,877	4,519	(2,603)
Net cash provided by operating activities	49,306	31,571	14,885
Cash flows from investing activities:			
Improvements and additions to hotel properties	(14,931)	(16,178)	(8,590)
Acquisition of hotel properties, net of cash acquired	(404,737)	(229,646)	(27,998)
Distributions from unconsolidated entities	2,053	13,939	21,202
Investment in unconsolidated real estate entities	(27,948)	(1,649)	—
Restricted cash	(7,425)	(1,656)	2,350
Net cash used in investing activities	(452,988)	(235,190)	(13,036)
Cash flows from financing activities:			
Borrowings on revolving credit facility	250,000	234,000	38,500
Repayments on revolving credit facility	(277,500)	(263,500)	(26,500)
Payments on debt	(2,631)	(2,166)	(1,694)
Proceeds from the issuance of debt	340,475	164,613	—
Principal prepayment of mortgage debt	(32,186)	(100,130)	—
Payments of financing costs	(1,585)	(2,405)	(1,452)
Payment of offering costs	(7,062)	(10,388)	(277)
Proceeds from issuance of common shares	171,552	202,751	—
In-substance repurchase of vested common shares	(18)	(7)	—
Distributions-common shares/units	(26,507)	(19,424)	(10,610)
Net cash provided by (used in) financing activities	414,538	203,344	(2,033)
Net change in cash and cash equivalents	10,856	(275)	(184)
Cash and cash equivalents, beginning of period	4,221	4,496	4,680
Cash and cash equivalents, end of period	\$ 15,077	\$ 4,221	\$ 4,496
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 18,296	\$ 10,169	\$ 12,677
Cash paid for income taxes	\$ 220	\$ 77	\$ 135

Supplemental disclosure of non-cash investing and financing information:

On January 15, 2014, the Company issued 16,542 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2013. On January 15, 2013, the Company issued 22,536 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2012. On January 6, 2012, the Company issued 27,592 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2011.

-Continued-

As of December 31, 2014, the Company had accrued distributions payable of \$2,884. These distributions were paid on January 30, 2015 except for \$129 related to accrued but unpaid distributions on unvested performance based shares (See Note 11). As of December 31, 2013, the Company had accrued distributions payable of \$1,950. These distributions were paid on January 31, 2014 except for \$92 related to accrued but unpaid distributions on unvested performance based shares. As of December 31, 2012, the Company had accrued distributions payable of \$2,875. These distributions were paid on January 25, 2013 except for \$41 thousand related to accrued but unpaid distributions on unvested performance based shares.

A franchise fee of \$75 was included in prepaid expenses and other assets at December 31, 2012. This amount was moved to deferred costs, net as of the second quarter of 2013, for the rebranding of the Company's Washington D.C. hotel to a Residence Inn by Marriott.

Accrued share based compensation of \$413, \$337 and \$337 is included in accounts payable and accrued expenses as of December 31, 2014, 2013 and 2012.

Accrued capital improvements of \$865, \$323 and \$869 are included in accounts payable and accrued expenses as of December 31, 2014, 2013, and 2012 respectively.

At December 31, 2013, there were costs of \$91 included in deferred costs related to offerings completed in 2014. During 2014, the Company wrote-off \$397 of deferred loan costs and \$213 of accumulated amortization on a loan that was paid off.

The Innkeepers JV transaction (see note 5) partially resulted in a non-cash transaction whereby the Company's previously held joint venture deficit interest in the four Silicon Valley Hotels of approximately \$6.9 million was recorded as part of the Company's acquisition in the Silicon Valley Hotels and related net gain from remeasurement and sale of investment.

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

CHATHAM LODGING TRUST
Notes to the Consolidated Financial Statements
(In thousands, except share and per share data)

1. Organization

Chatham Lodging Trust (“we,” “us” or the “Company”) was formed as a Maryland real estate investment trust on October 26, 2009. The Company is internally-managed and was organized to invest primarily in premium-branded upscale extended-stay and select-service hotels. The Company has elected to be treated as a real estate investment trust for federal income tax purposes (“REIT”).

The Company had no operations prior to the consummation of the initial public offering (“IPO”) in April 2010. The net proceeds from our share offerings are contributed to Chatham Lodging, L.P., our operating partnership (the “Operating Partnership”), in exchange for partnership interests. Substantially all of the Company’s assets are held by, and all operations are conducted through, the Operating Partnership. Chatham Lodging Trust is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership. Certain of the Company’s executive officers hold vested and unvested long-term incentive plan units in the Operating Partnership, which are presented as non-controlling interests on our consolidated balance sheets.

As of December 31, 2014, the Company owned 34 hotels with an aggregate of 5,115 (unaudited) rooms located in 15 states and the District of Columbia. The Company also (i) held a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with NorthStar Realty Finance Corp (“NorthStar”), which was formed in the second quarter of 2014 and acquired 47 hotels from a joint venture (the “Innkeepers JV”) between the Company and Cerberus Capital Management (“Cerberus”), comprising an aggregate of 6,094 (unaudited) rooms, (ii) held a 10.0% noncontrolling interest in a separate joint venture (the “Inland JV”) with NorthStar, which was formed in the fourth quarter of 2014 acquired 48 hotels from Inland American Real Estate Trust, Inc. (“Inland”), comprising an aggregate of 6,401 (unaudited) rooms and (iii) held a 5.0% noncontrolling interest in a joint venture (the “Torrance JV”) with Cerberus that owns the 248-room (unaudited) Residence Inn by Marriott in Torrance, CA. We sometimes refer to the NewINK JV, Inland JV and Torrance JV collectively as the “JVs”.

To qualify as a REIT, the Company cannot operate its hotels. Therefore, the Operating Partnership and its subsidiaries lease our wholly owned hotels to taxable REIT subsidiary lessees (“TRS Lessees”), which are wholly owned by one of the Company’s taxable REIT subsidiary (“TRS”) holding companies. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation. The Company indirectly owns its (i) 10.3% interest in 47 of the NewINK JV hotels, (ii) 10% interest in 48 of the Inland JV hotels and (iii) its 5.0% interest in the Torrance JV through the Operating Partnership. All of the NewINK JV hotels, Inland JV hotels and the Torrance JV hotel are leased to TRS Lessees, in which the Company indirectly owns noncontrolling interests through one of its TRS holding companies.

The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of December 31, 2014, Island Hospitality Management Inc. (“IHM”), which was 90% owned by Mr. Fisher, managed 32 of the Company’s wholly owned hotels and Concord Hospitality Enterprises Company managed two of the Company’s wholly owned hotels. As of December 31, 2014, all of the NewINK JV hotels were managed by IHM. As of December 31, 2014, 34 of the Inland JV hotels are managed by IHM and 14 hotels are managed by Marriott International, Inc. (“Marriott”). The Torrance JV hotel is managed by Marriott.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”). These consolidated financial statements, in the opinion of management, include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations, consolidated statements of equity, and consolidated statements of cash flows for the periods presented.

The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

Reclassifications

Certain prior period revenue and expense amounts in the consolidated financial statements have been reclassified to be comparable to the current period presentation. The reclassification did not have any impact on net income (loss).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company’s financial instruments include cash and cash equivalents, restricted cash, hotel receivables, accounts payable and accrued expenses, distributions payable and debt. Due to their relatively short maturities, the carrying values reported in the consolidated balance sheets for these financial instruments approximate fair value except for debt, the fair value of which is separately disclosed in Note 6.

Investment in Hotel Properties

The Company allocates the purchase prices of hotel properties acquired through a business combination based on the fair value of the acquired real estate, furniture, fixtures and equipment, identifiable intangible assets and assumed liabilities. In making estimates of fair value for purposes of allocating the purchase price, the Company utilizes a number of sources of information that are obtained in connection with the acquisition of a hotel property, including valuations performed by independent third parties and information obtained about each hotel property resulting from pre-acquisition due diligence. Hotel property acquisition costs, such as transfer taxes, title insurance, environmental and property condition reviews, and legal and accounting fees are expensed in the period incurred.

The Company’s investment in hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for land improvements, 15 years for building improvements and one to ten years for furniture, fixtures and equipment. Renovations and/or replacements at the hotel properties that improve or extend the life of the assets are capitalized and depreciated over their useful lives, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the Company’s accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

The Company will periodically review its hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management will perform an analysis to determine if the estimated undiscounted future cash flows, without interest charges, from operations and the proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value is recorded and an impairment loss recognized. As of December 31, 2014, 2013 and 2012, there were no hotel properties impaired.

For properties the Company considers held for sale, depreciation and amortization are no longer recorded and the value the properties is recorded at the lower of depreciated cost or fair value, less costs to sell. If circumstances arise that were previously considered unlikely, and, as a result, the Company decides not to sell a property previously classified as held for sale, the Company will reclassify such property as held and used. Such property is measured at the lower of its carrying amount (adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used) or fair value at the date of the subsequent decision not to sell. The Company classifies properties as held for sale when all criteria within the FASB's guidance on the impairment or disposal of long-lived assets are met. As of December 31, 2014, the Company had no hotel properties held for sale.

Investment in Unconsolidated Real Estate Entities

If it is determined that the Company does not have a controlling interest in a joint venture, either through its financial interest in a variable investment entity ("VIE") or in a voting interest entity, but does have the ability to exercise significant influence the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, advances to and commitments for the investee.

Investment in unconsolidated real estate entities are accounted for under the equity method of accounting and the Company records its equity in earnings or losses under the hypothetical liquidation of book value ("HLBV") method of accounting due to the structures and the preferences we receive on the distributions from our joint ventures pursuant to the respective joint venture agreements for those joint ventures. Under this method, the Company recognizes income and loss in each period based on the change in liquidation proceeds it would receive from a hypothetical liquidation of its investment based on depreciated book value. Therefore, income or loss may be allocated disproportionately as compared to the ownership percentages due to specified preferred return rate thresholds and may be more or less than actual cash distributions received and more or less than what the Company may receive in the event of an actual liquidation. In the event a basis difference is created between the carrying amount of the Company's share of partner's capital, the resulting amount is allocated based on the assets of the investee and, if assigned to depreciable or amortizable assets, then amortized as a component of income (loss) from unconsolidated real estate entities.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, the Company will estimate the fair value of the investment. The Company's estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred and is other than temporary, the loss will be measured as the excess of the carrying amount over the fair value of the Company's investment in the unconsolidated joint venture.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short term liquid investments with an original maturity of three months or less. Cash balances in individual banks may exceed federally insurable limits.

Restricted Cash

Restricted cash represents purchase price deposits held in escrow for potential hotel acquisitions under contract and escrows for reserves such as reserves for capital expenditures, property taxes or insurance that are required pursuant to the Company's loans or hotel management agreements. Restricted cash on the accompanying consolidated balance sheet at December 31, 2014 and 2013 is \$12,030 and \$4,605, respectively.

Hotel Receivables

Hotel receivables consist of amounts owed by guests staying in the hotels and amounts due from business and group customers. An allowance for doubtful accounts is provided and maintained at a level believed to be adequate to absorb estimated probable losses. At December 31, 2014 and 2013, the allowance for doubtful accounts was \$71 and \$30, respectively.

Deferred Costs

Deferred costs consist of franchise agreement fees for the Company's hotels, loan costs related to the Company's senior secured revolving credit facility and mortgage loans and costs related to the Company's share offerings or share plans.

Deferred costs consisted of the following at December 31, 2014 and 2013 (in thousands):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loan costs	\$10,717	\$ 9,529
Franchise fees	2,969	2,215
Other	—	91
	<u>13,686</u>	<u>11,835</u>
Less accumulated amortization	<u>(6,172)</u>	<u>(4,722)</u>
Deferred costs, net	<u>\$ 7,514</u>	<u>\$ 7,113</u>

Loan costs are recorded at cost and amortized over the term of the loan applying the effective interest rate method. Franchise fees are recorded at cost and amortized over a straight-line basis over the term of the franchise agreements. Other deferred costs relate to potential share offerings and are recorded as a reduction in additional paid-in capital as shares are sold. For the years ended December 31, 2014, 2013 and 2012, amortization expense related to franchise fees of \$131, \$87 and \$75, respectively, is included in depreciation and amortization. Amortization expense related to loan costs of \$1,532, \$1,088 and \$1,840 for the years ended December 31, 2014, 2013 and 2012, respectively, is included in interest expense in the consolidated statements of operations.

Prepaid Expenses and Other Assets

The Company's prepaid expenses and other assets consist of prepaid insurance, prepaid property taxes, deposits and hotel supplies inventory.

Distributions and Losses in Excess of Investments in Unconsolidated Real Estate Entities

At times, certain of the Company's investments in unconsolidated entities share of cumulative allocated losses and cash distributions received exceeds its cumulative allocated share of income and equity contributions. Although the Company typically does not make any guarantees of its investments in unconsolidated real estate

entities other than certain customary non-recourse carve-out provisions, due to potential penalties along with potential upside financial returns, the Company generally intends to make any required capital contributions to maintain its ownership percentage and as such will record its share of cumulative allocated losses and cash distributions below zero. As a result, the carrying value of certain investments in unconsolidated entities is negative. Unconsolidated entities with negative carrying values are included in cash distributions and losses in excess of investments in unconsolidated entities in the Company's Consolidated Balance Sheets.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, the Company will estimate the fair value of the investment. The Company's estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount over the fair value of the Company's investment in the unconsolidated joint venture.

Revenue Recognition

Revenue from hotel operations is recognized when rooms are occupied and when services are provided. Revenue consists of amounts derived from hotel operations, including sales from room, meeting room, gift shop, in-room movie and other ancillary amenities. Sales, use, occupancy, and similar taxes are collected and presented on a net basis (excluded from revenue) in the accompanying consolidated statements of operations.

Share-Based Compensation

The Company measures compensation expense for the restricted share awards based upon the fair market value of its common shares at the date of grant. Compensation expense is recognized on a straight-line basis over the vesting period and is included in general and administrative expense in the accompanying consolidated statement of operations. The Company pays dividends on vested and non-vested restricted shares, except for performance-based shares, for which dividends on unvested shares are not paid until those shares are vested.

Earnings Per Share

A two class method is used to determine earnings per share. Basic earnings per share ("EPS") is computed by dividing net income (loss) available for common shareholders, adjusted for dividends on unvested share grants, by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) available for common shareholders, adjusted for dividends on unvested share grants, by the weighted average number of common shares outstanding plus potentially dilutive securities such as share grants or shares issuable in the event of conversion of operating partnership units. No adjustment is made for shares that are anti-dilutive during the period. The Company's restricted share awards and long-term incentive plan units are entitled to receive dividends, if declared. The rights to dividends declared are non-forfeitable, and therefore, the unvested restricted shares and long-term incentive plan units qualify as participating securities requiring the allocation of earnings under the two-class method to calculate EPS. The percentage of earnings allocated to the unvested restricted shares is based on the proportion of the weighted average unvested restricted shares outstanding to the total of the basic weighted average common shares outstanding and the weighted average unvested restricted shares outstanding. Basic EPS is then computed by dividing income less earnings allocable to unvested restricted shares by the basic weighted average number of shares outstanding. Diluted EPS is computed similar to basic EPS, except the weighted average number of shares outstanding is increased to include the effect of potentially dilutive securities.

Income Taxes

The Company elected to be taxed as a REIT for federal income tax purposes. In order to qualify as a REIT under the Internal Revenue Code of 1986, as amended, the Company must meet certain organizational and

operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its shareholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent the Company distributes its REIT taxable income to its shareholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its REIT taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants the Company relief under certain statutory provisions.

The Company leases its wholly owned hotels to TRS Lessees, which are wholly owned by the Company's taxable REIT subsidiaries (each, a "TRS") which, in turn are wholly owned by the Operating Partnership. Additionally, the Company indirectly owns its interest in the hotels owned by the NewINK JV (47 hotels), the Inland JV (48 hotels) and the Torrance JV through the Operating Partnership. All of the NewINK JV hotels, Inland JV hotels and the Torrance JV hotel are leased to TRS Lessees in which the Company indirectly owns noncontrolling interests through one of its TRS holding companies. Each TRS is subject to federal and state income taxes and the Company accounts for taxes, where applicable, in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification 740 using the asset and liability method which recognizes deferred tax assets and liabilities for future tax consequences arising from differences between financial statement carrying amounts and income tax bases.

As of December 31, 2014, the Company is no longer subject to U.S federal income tax examinations for years before 2012 and with few exceptions to state examinations before 2012. The Company evaluates whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Company has reviewed its tax positions for open tax years and has concluded no provisions for income taxes is required in the Company's consolidated financial statements as of December 31, 2014. Interest and penalties related to uncertain tax benefits, if any, in the future will be recognized as operating expense.

During the first quarter of 2015, management was notified that one of the Company's TRS' is going to be examined by the State of Florida Department of Revenue for the tax years ended December 31, 2009 through 2013. As of March 16, 2015, the examination remains open. The Company believes that it does not need to record a liability related to all matters contained in the tax periods open to examination. However, should the Company experience an unfavorable outcome in the State of Florida matter, such an outcome could have a material impact on its results of operations, financial position, and cash flows. Although the timing of the income tax audit resolutions and negotiations with taxing authorities is highly uncertain, the Company does not anticipate a significant change to the total amount of unrecognized income tax benefits within the next 12 months.

Organizational and Offering Costs

The Company expensed organizational costs as incurred. Offering costs, which include selling commissions, are recorded as a reduction in additional paid-in capital in shareholders' equity as shares are sold. For offering costs incurred prior to potential share offerings, these costs are initially recorded in deferred costs on the balance sheet and then recorded as a reduction to additional paid-in capital as shares are sold through the subsequent share offering. As of December 31, 2014 and 2013, the Company had \$0 and \$91 recorded in deferred costs related to deferred offering costs.

Segment Information

Management evaluates the Company's hotels as a single industry segment because all of the hotels have similar economic characteristics and provide similar services to similar types of customers.

Recently Issued Accounting Standards

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results or a business activity classified as held for sale upon acquisition should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014. Early adoption is only permitted for disposals that have not been reported in financial statements previously issued. We adopted this accounting standard update effective January 1, 2014 and the implementation of the amended guidance did not have a material impact on the Company's consolidated financial position or results of operations, but do expect these amendments to impact the Company's determination of which future property disposals qualify as discontinued operations as well as requiring additional disclosures about discontinued operations.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to perform interim and annual assessments of an entity's ability to continue within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This guidance is effective for the Company on January 1, 2017 and will not have an impact on the Company's financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02 Amendments to the Consolidation Analysis, which requires amendments to both the variable interest entity and voting models. The amendments (i) rescind the indefinite deferral of certain aspects of accounting standards relating to consolidations and provide a permanent scope exception for registered money market funds and similar unregistered money market funds, (ii) modify the identification of variable interests (fees paid to a decision maker or service provider), the VIE characteristics for a limited partnership or similar entity and primary beneficiary determination under the VIE model, and (iii) eliminate the presumption within the current voting model that a general partner controls a limited partnership or similar entity. The new guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2015 with early adoption permitted. The amendments may be applied using either a modified retrospective or full retrospective approach. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements.

3. Acquisition of Hotel Properties

Hotel Purchase Price Allocation

The allocation of the purchase price of each of the hotels acquired by the Company in 2014, based on the fair value on the date of its acquisition, was (in thousands):

	<u>Silicon Valley Hotels</u>	<u>Cherry Creek Hotel</u>	<u>Inland 4 Pack Hotels</u>	<u>Total</u>
Acquisition date	6/9/2014	8/29/2014	11/17/2014	
Number of rooms (unaudited)	751	194	575	1,520
Land	\$ 149,565	\$ 3,700	\$ 12,923	\$166,188
Building and improvements	159,391	26,300	92,414	278,105
Furniture, fixtures and equipment	14,897	2,000	1,404	18,301
Cash	25	1	11	37
Restricted cash	—	—	—	—
Accounts receivable	959	56	374	1,389
Deferred costs, net	—	—	—	—
Prepaid expenses and other assets	289	17	56	362
Mortgage Debt	—	—	—	—
Accounts payable and accrued expenses	—	(62)	(686)	(748)
Net assets acquired	<u>\$ 325,126</u>	<u>\$ 32,012</u>	<u>\$ 106,496</u>	<u>\$463,634</u>
Less: Fair value of interest in the Silicon Valley Hotels and NewINK JV	<u>(58,860)</u>	<u>—</u>	<u>—</u>	<u>(58,860)</u>
Net assets acquired, net of cash	<u>\$ 266,241</u>	<u>\$ 32,011</u>	<u>\$ 106,485</u>	<u>\$404,737</u>

The value of the assets acquired was primarily based on a sales comparison approach (for land) and a depreciated replacement cost approach (for building and improvements and furniture, fixtures and equipment). The sales comparison approach uses inputs of recent land sales in the respective hotel markets. The depreciated replacement cost approach uses inputs of both direct and indirect replacement costs using a nationally recognized authority on replacement cost information as well as the age, square footage and number of rooms of the respective assets. The Company incurred acquisition costs of \$10,381, \$3,341 and \$236, respectively, during the years ended December 31, 2014, 2013 and 2012.

The amount of revenue and operating income from the hotels acquired in 2014 from their respective date of acquisition through December 31, 2014 is as follows (in thousands):

	<u>Revenue</u>	<u>Operating Income</u>
Silicon Valley hotels	\$26,814	\$16,554
Cherry Creek hotel	2,445	1,111
Inland 4 Pack hotels	2,035	692
Total	<u>\$31,294</u>	<u>\$18,357</u>

Pro Forma Financial Information (unaudited)

The following condensed pro forma financial information presents the unaudited results of operations as if the hotels acquired during the years ended December 31, 2014, 2013 or 2012 had taken place on January 1, 2013, 2012 and 2011, respectively. Since the acquisition of the Portland hotel and the Cherry Creek hotel were not material, the pro forma numbers presented below do not include the operating results of the Portland hotel or Cherry Creek hotel prior to the acquisition date. Supplemental pro forma earnings were adjusted to exclude \$7,234 and \$1,667, respectively, of acquisition-related costs incurred in the years ended December 31, 2014 and

2013. Supplemental pro forma earnings for the years ended December 2013 and 2012, respectively, were adjusted to include these charges from 2014 and 2013. The unaudited pro forma results have been prepared for comparative purposes only and are not necessarily indicative of what actual results of operations would have been had the acquisitions taken place on January 1, 2013, 2012 or 2011, respectively, nor do they purport to represent the results of operations for future periods (in thousands, except share and per share data).

	For the year ended		
	2014	December 31, 2013	2012
Pro forma total revenue	\$ 237,681	\$ 216,239	\$ 141,557
Pro forma net income (loss)	\$ 80,930	\$ 7,627	\$ 1,928
Pro forma income per share:			
Basic	\$ 2.84	\$ 0.27	\$ 0.07
Diluted	\$ 2.81	\$ 0.26	\$ 0.07
Weighted average common shares outstanding			
Basic	28,531,094	28,531,094	28,531,094
Diluted	28,846,724	28,846,724	28,846,724

As a result of the properties being treated as acquired as of January 1, 2012 and 2013, the Company assumed approximately 28,531,094 shares were issued as of January 1, 2012 to fund the acquisition of the properties. Consequently, the weighted average shares outstanding was adjusted to reflect the treatment of these assumed additional shares as issued outstanding as of the beginning of the periods presented.

4. Investment in Hotel Properties

Investment in hotel properties as of December 31, 2014 and 2013 consisted of the following (in thousands):

	December 31, 2014	December 31, 2013
Land and improvements	\$ 261,108	\$ 94,847
Building and improvements	844,396	559,713
Furniture, fixtures and equipment	61,186	36,628
Renovations in progress	6,574	4,006
	1,173,264	695,194
Less: accumulated depreciation	(76,839)	(42,317)
Investment in hotel properties, net	<u>\$1,096,425</u>	<u>\$652,877</u>

5. Investment in Unconsolidated Entities

On April 17, 2013, the Company acquired a 5.0% interest in the Torrance JV with Cerberus for \$1,649. The Torrance JV acquired the 248-room (unaudited) Residence Inn by Marriott in Torrance, CA for \$31,000. The Company accounts for this investment under the equity method. During the years ended December 31, 2014 and 2013, the Company received cash distributions from the Torrance JV as follows (in thousands):

	For the year ended	
	December 31, 2014	2013
Cash generated from other activities and excess cash	\$100	\$ 40
Cash generated from debt refinancing	—	908
Total	<u>\$100</u>	<u>\$948</u>

The Company owned a 10.3% interest in a joint venture (the “Innkeepers JV”) with Cerberus, which owned 51 hotels comprising an aggregate of 6,845 rooms until June 9, 2014. The Company accounted for this investment under the equity method. During the years ended December 31, 2014 and 2013, the Company received cash distributions from the Innkeepers JV as follows (in thousands):

	For the year ended December 31,	
	2014	2013
Cash generated from other activities and excess cash	\$411	\$ 2,716
Cash generated from asset sales	—	130
Cash generated from debt refinancing	—	10,145
Total	<u>\$411</u>	<u>\$12,991</u>

On June 9, 2014, the Innkeepers JV completed the sale of 47 of the 51-hotels, owned by the Innkeepers JV to a new joint venture (the “NewINK JV”) between affiliates of NorthStar Realty Finance Corp. (“NorthStar”) and the Operating Partnership: NorthStar owns an 89.7% interest and the Company owns a 10.3% interest in the NewINK JV. The remaining four hotels that were part of the 51-hotel Innkeeper’s JV portfolio, each of which is a Residence Inn hotel located in Silicon Valley, CA (“Silicon Valley Hotels”), were purchased by the Company (see note 3). The Company accounts for its investment in the NewINK JV under the equity method. The remeasurement gain of the Company’s interest in the four Silicon Valley Hotels as a result of the step acquisition was approximately \$18.8 million and the net gain from the Company’s promote interest in the Innkeepers JV was approximately \$47.0 million (which was credited toward the purchase of the Silicon Valley Hotels), resulting in a total gain of \$65.8 million from the transaction. For tax purposes, the Company’s gain resulting from this transaction was rolled tax deferred between the basis of the Company’s investment in the NewINK JV and the Company’s basis in the four Silicon Valley Hotels. As of December 31, 2014, the Company’s share of partners’ capital in the NewINK JV is approximately \$19.0 million and the total difference between the carrying amount of the investment and the Company’s share of partners’ capital is approximately \$17.3 million (for which the basis difference related to amortizing assets is being recognized over the life of the related assets as a basis difference adjustment).

During the years ended December 31, 2014 and 2013, the Company received cash distributions from the NewINK JV as follows (in thousands):

	For the year ended December 31,	
	2014	2013
Cash generated from other activities and excess cash	\$1,542	\$—
Total	<u>\$1,542</u>	<u>\$—</u>

On November 17, 2014, the Company acquired a 10.0% interest in a joint venture between affiliates of NorthStar and the Operating Partnership (the “Inland JV”). NorthStar owns a 90.0% interest in the Inland JV. The Company accounts for this investment under the equity method. During the years ended December 31, 2014 and 2013, the Company did not receive any cash distributions from the Inland JV.

The Company’s ownership interests in the NewINK JV, the Inland JV and the Torrance JV (the “JVs”) are subject to change in the event that either the Company, NorthStar or Cerberus calls for additional capital contributions to the respective JVs necessary for the conduct of business, including contributions to fund costs and expenses related to capital expenditures. The Company manages the JVs and will receive a promote interest in each applicable JV if it meets certain return thresholds for such JV. NorthStar and Cerberus may also approve certain actions by the JVs in which they are a partner without the Company’s consent, including certain property dispositions conducted at arm’s length, certain actions related to the restructuring of the applicable JV and removal of the Company as managing member in the event the Company fails to fulfill its material obligations under the applicable joint venture agreement.

The Company's investments in the NewInk JV, the Inland JV and the Torrance JV are \$1,694, \$25,676, \$782, respectively, at December 31, 2014. The following tables sets forth the total assets, liabilities, equity and components of net loss, including the Company's share, related to all JVs for the years ended December 31, 2014, 2013 and 2012 (in thousands):

Balance Sheet

	<u>December 31, 2014</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Assets			
Investment in hotel properties, net	\$1,907,928	\$874,058	\$862,747
Other assets	261,311	114,034	86,149
Total Assets	<u>\$2,169,239</u>	<u>\$988,092</u>	<u>\$948,896</u>
Liabilities			
Mortgages and notes payable	\$1,677,159	\$969,023	\$792,239
Other Liabilities	34,929	19,211	27,041
Total Liabilities	<u>1,712,088</u>	<u>988,234</u>	<u>819,280</u>
Equity			
Chatham Lodging Trust	45,470	(802)	13,362
Joint Venture Partner	411,681	660	116,254
Total Equity	<u>457,151</u>	<u>(142)</u>	<u>129,616</u>
Total Liabilities and Equity . .	<u>\$2,169,239</u>	<u>\$988,092</u>	<u>\$948,896</u>

Statement of Operations

	For the year ended December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue	\$290,419	\$271,224	\$251,612
Total hotel operating expenses	166,849	151,823	143,525
Operating income	<u>\$123,570</u>	<u>\$119,401</u>	<u>\$108,087</u>
Net loss from continuing operations	\$ (40,018)	\$ (14,376)	\$ (16,093)
Gain (loss) on sale of hotels	\$ (5)	\$ (2,730)	\$ 2,092
Net loss	<u>\$ (40,023)</u>	<u>\$ (17,106)</u>	<u>\$ (14,001)</u>
Income allocable to the Company	\$ (4,165)	\$ (1,874)	\$ (1,439)
Basis difference adjustment	\$ 335	\$ —	\$ —
Total loss from unconsolidated real estate entities attributable to Chatham	<u>\$ (3,830)</u>	<u>\$ (1,874)</u>	<u>\$ (1,439)</u>

6. Debt

The Company's mortgage loans and its senior secured revolving credit facility are collateralized by first-mortgage liens on certain properties. The mortgages are non-recourse except for instances of fraud or misapplication of funds. Mortgage debt consisted of the following (in thousands):

Collateral	Interest Rate	Maturity Date	12/31/14 Property Carrying Value	Balance Outstanding as of December 31, 2014	Balance Outstanding as of December 31, 2013
Senior Secured Revolving Credit Facility (1) . .	2.67%	November 5, 2016	\$177,133	\$ 22,500	\$ 50,000
SpringHill Suites by Marriott Washington, PA	5.84%	April 1, 2015	11,509	4,760	4,937
Courtyard by Marriott Altoona, PA	5.96%	April 1, 2016	10,553	6,172	6,378
Residence Inn by Marriott New Rochelle, NY	5.75%	September 1, 2021	21,075	14,832	15,150
Residence Inn by Marriott San Diego, CA	4.66%	February 6, 2023	46,947	30,062	30,546
Homewood Suites by Hilton San Antonio, TX	4.59%	February 6, 2023	29,615	17,174	17,454
Residence Inn by Marriott Vienna, VA	4.49%	February 6, 2023	32,918	23,534	23,925
Courtyard by Marriott Houston, TX	4.19%	May 6, 2023	32,526	19,475	19,812
Hyatt Place Pittsburgh, PA	4.65%	July 6, 2023	38,187	23,657	24,028
Residence Inn by Marriott Bellevue, WA	4.97%	December 6, 2023	69,635	47,580	47,580
Residence Inn by Marriott Garden Grove, CA (2)	4.79%	April 6, 2024	42,873	34,000	32,253
Residence Inn by Marriott Silicon Valley I, CA (3)	4.64%	July 1, 2024	90,509	64,800	—
Residence Inn by Marriott Silicon Valley II, CA (3)	4.64%	July 1, 2024	99,150	70,700	—
Residence Inn by Marriott San Mateo, CA (3)	4.64%	July 1, 2024	71,022	48,600	—
Residence Inn by Marriott Mountain View, CA (3)	4.64%	July 1, 2024	54,781	37,900	—
SpringHill Suites by Marriott Savannah, GA (4)	4.62%	July 6, 2024	38,215	30,000	—
Homewood Suites by Hilton Billerica, MA (5)	4.32%	December 6, 2024	12,238	16,225	—
Homewood Suite by Marriott Carlsbad, CA (5)	4.32%	December 6, 2024	28,838	19,950	—
Hampton Inn & Suites Houston Medical Cntr., TX (6)	4.25%	January 6, 2025	15,605	18,300	—
Total			<u>\$923,329</u>	<u>\$550,221</u>	<u>\$272,063</u>

- (1) Ten properties in the borrowing base serve as collateral for borrowings under the credit facility at December 31, 2014. The interest rate for the senior secured revolving credit facility is variable and based on LIBOR plus 2.5%.
- (2) On March 21, 2014, the Company refinanced the mortgage for the Residence Inn Garden Grove hotel. The new loan has a 10-year term and a 30-year amortization payment schedule but is interest only for the first 12 months. The Company incurred \$184 in costs for the early extinguishment of debt related to the old loan.
- (3) On June 9, 2014, the Company obtained 4 new mortgage loans secured by a first mortgage for the Silicon Valley I, Silicon Valley II, San Mateo and Mountain View hotels, respectively. The new loans have a 10-year term and a 30-year amortization payment schedule but are interest only for the first 60 months.

- (4) On July 2, 2014, the Company obtained a new mortgage loan secured by a first mortgage for the Savannah hotel. The loan has a 10-year term and a 30-year amortization payment schedule but is interest only for the first 60 months.
- (5) On November 25, 2014, the Company obtained 2 new mortgage loans secured by a first mortgage on each of the Billerica and Carlsbad hotels. The loans have a 10-year term and a 30-year amortization payment schedule but are interest only for the first 36 months.
- (6) On December 17, 2014, the Company obtained a new mortgage loan secured by a first mortgage on the Houston Medical Center hotel. The loan has a 10-year term, a 30-year amortization payment schedule but is interest only for the first 36 months.

The Company entered into an amendment (the “Amendment”) to its amended and restated senior secured revolving credit facility on December 11, 2013. The Amendment extends the maturity date to November 5, 2016 and includes the Company’s option to extend the maturity date by an additional year. The senior secured revolving credit facility includes limitations on the extent of allowable distributions to the Company not to exceed the greater of 95% of Adjusted Funds from Operations (as defined in the senior secured revolving credit facility) and the minimum amount of distributions required for the Company to maintain its REIT status. Other key terms are as follows:

Facility amount	\$175,000
Accordion feature	Increase additional \$50,000
LIBOR floor	None
Interest rate applicable margin	200-300 basis points, based on leverage ratio
Unused fee	25 basis points if less than 50% unused, 35 basis points if more than 50% unused
Minimum fixed charge coverage ratio	1.5x

At December 31, 2014 and 2013, the Company had \$22,500 and \$50,000, respectively, of outstanding borrowings under its senior secured revolving credit facility. Ten properties in the borrowing base serve as collateral for borrowings under the credit facility at December 31, 2014. At December 31, 2014, the maximum borrowing availability under the revolving credit facility was \$175,000.

The Company estimates the fair value of its fixed rate debt, which is all of the Company’s mortgage loans by discounting the future cash flows of each instrument at estimated market rates. Rates take into consideration general market conditions, quality and estimated value of collateral and maturity of debt with similar credit terms and are classified within level 3 of the fair value hierarchy. The estimated fair value of the Company’s fixed rate debt as of December 31, 2014 and 2013 was \$542.5 million and \$220.0 million, respectively.

The Company estimates the fair value of its variable rate debt by taking into account general market conditions and the estimated credit terms it could obtain for debt with a similar maturity and that is classified within level 3 of the fair value hierarchy. The Company’s only variable rate debt is under its senior secured revolving credit facility. The estimated fair value of the Company’s variable rate debt as of December 31, 2014 and 2013 was \$22.5 million and \$50.0 million, respectively.

As of December 31, 2014, the Company was in compliance with all of its financial covenants. At December 31, 2014, the Company's consolidated fixed charge coverage ratio was 3.15. Future scheduled principal payments of debt obligations as of December 31, 2014, for each of the next five calendar years and thereafter are as follows (in thousands):

	<u>Amount</u>
2015	\$ 8,062
2016	31,978
2017	3,971
2018	5,012
2019	7,046
Thereafter	494,152
Total	<u><u>\$550,221</u></u>

7. Income Taxes

The Company's TRSs are subject to federal and state income taxes. The Company's TRSs are structured under two TRS holding companies, which are referred to as TRS 1 and TRS 2, which are treated separately for income tax purposes.

The components of income tax expense for the following periods are as follows (in thousands):

	For the year ended December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current:			
Federal	\$ 82	\$ 93	\$ 55
State	27	30	19
Current tax expense	<u>\$109</u>	<u>\$123</u>	<u>\$ 74</u>
Deferred:			
Federal	(3)	—	1
State	(1)	1	—
Deferred tax expense	<u>(4)</u>	<u>1</u>	<u>1</u>
Total tax expense	<u>\$105</u>	<u>\$124</u>	<u>\$ 75</u>

The difference between income tax expense and the amount computed by applying the statutory federal income tax rate to the combined income of the Company's TRSs before taxes were as follows (in thousands):

	For the year ended December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Book income (loss) before income taxes	<u>\$ (520)</u>	<u>\$(2,080)</u>	<u>\$ 159</u>
Statutory rate of 34% applied to pre-tax income	\$ (178)	\$ (707)	\$ 54
Effect of state and local income taxes, net of federal tax benefit	(14)	(82)	20
Provision to return and deferred adjustment	40	118	—
Change in valuation allowance	<u>257</u>	<u>795</u>	<u>1</u>
Total expense	<u>\$ 105</u>	<u>\$ 124</u>	<u>\$ 75</u>
Effective tax rate	<u>(20.19)%</u>	<u>(5.96)%</u>	<u>47.17%</u>

At December 31, 2014, TRS 1 had a gross deferred tax asset associated with future tax deductions of \$1,297. TRS 1 has continued to record a full valuation allowance equal to 100% of the gross deferred tax asset due to the uncertainty of realizing the benefit of its deferred assets due to the cumulative taxable losses incurred by TRS 1 since its inception. TRS 2 has a gross deferred tax asset of \$10 as of December 31, 2014 and no valuation allowance has been recorded in connection with the gross deferred tax assets of TRS 2 for December 31, 2014 and 2013. Accordingly, the net deferred tax asset of the Company solely relates to the deferred tax assets generated by TRS 2 during the years ended December 31, 2014 and 2013. The tax effect of each type of temporary difference and carry forward that gives rise to the deferred tax asset as of December 31, 2014 and 2013 are as follows (in thousands):

	For the year ended December 31,	
	2014	2013
Deferred tax assets:		
Allowance for doubtful accounts	\$ 28	\$ 11
Other	230	101
Valuation allowance	(248)	(89)
Current deferred tax asset	\$ 10	\$ 23
Non-current		
Total book to tax difference in partnership	\$ (165)	\$ (149)
Net operating loss	1,214	1,100
Valuation allowance	(1,049)	(951)
Non-current deferred tax asset	\$ —	\$ —
Net deferred tax asset	\$ 10	\$ 23

8. Dividends Declared and Paid

The Company declared total common share dividends of \$0.93 per share and distributions on long-term incentive plan (“LTIP”) units of \$0.93 per unit for the year ended December 31, 2014. The dividends and distributions and their tax characterization were as follows:

	Record Date	Payment Date	Common share distribution amount	LTIP unit distribution amount	Ordinary Income	Return of Capital
January	1/31/2014	2/28/2014	\$0.07	\$0.07	\$0.069	\$0.001
February	2/28/2014	3/28/2014	0.07	0.07	0.069	0.001
March	3/31/2014	4/25/2014	0.07	0.07	0.069	0.001
1st Quarter 2014			\$0.21	\$0.21	\$0.207	\$0.003
April	4/30/2014	5/30/2014	\$0.08	\$0.08	\$0.078	\$0.002
May	5/30/2014	6/27/2014	0.08	0.08	0.078	0.002
June	6/30/2014	7/25/2014	0.08	\$0.08	0.078	0.002
2nd Quarter 2014			\$0.24	\$0.24	\$0.234	\$0.006
July	7/31/2014	8/29/2014	\$0.08	\$0.08	\$0.078	\$0.002
August	8/29/2014	9/26/2014	0.08	0.08	0.078	0.002
September	9/30/2014	10/31/2014	\$0.08	0.08	\$0.078	\$0.002
3rd Quarter 2014			\$0.24	\$0.24	\$0.234	\$0.006
October	10/31/2014	11/28/2014	\$0.08	\$0.08	\$0.078	\$0.002
November	11/28/2014	12/26/2014	0.08	0.08	0.078	0.002
December	12/31/2014	1/30/2015	\$0.08	\$0.08	\$0.078	\$0.002
4th Quarter 2014			\$0.24	\$0.24	\$0.234	\$0.006
Total 2014			\$0.93	\$0.93	\$0.909	\$0.021

	<u>Record Date</u>	<u>Payment Date</u>	<u>Common share distribution amount</u>	<u>LTIP unit distribution amount</u>	<u>Ordinary Income</u>	<u>Return of Capital</u>
January	1/31/2013	2/22/2013	\$0.07	\$0.07	\$0.06	\$0.01
February	2/28/2013	3/29/2013	0.07	0.07	0.06	0.01
March	3/28/2013	4/26/2013	0.07	0.07	0.06	0.01
1st Quarter 2013			<u>\$0.21</u>	<u>\$0.21</u>	<u>\$0.18</u>	<u>\$0.03</u>
April	4/30/2013	5/31/2013	\$0.07	\$0.07	\$0.06	\$0.01
May	5/31/2013	6/28/2013	0.07	0.07	0.06	0.01
June	6/28/2013	7/26/2013	0.07	\$0.07	0.06	0.01
2nd Quarter 2013			<u>\$0.21</u>	<u>\$0.21</u>	<u>\$0.18</u>	<u>\$0.03</u>
July	7/31/2013	8/30/2013	\$0.07	\$0.07	\$0.06	\$0.01
August	8/30/2013	9/27/2013	0.07	0.07	0.06	0.01
September	9/30/2013	10/25/2013	\$0.07	0.07	\$0.06	\$0.01
3rd Quarter 2013			<u>\$0.21</u>	<u>\$0.21</u>	<u>\$0.18</u>	<u>\$0.03</u>
October	10/31/2013	11/29/2013	\$0.07	\$0.07	\$0.06	\$0.01
November	11/29/2013	12/27/2013	0.07	0.07	0.06	0.01
December	12/31/2013	1/31/2014	\$0.07	\$0.07	\$0.06	\$0.01
4th Quarter 2013			<u>\$0.21</u>	<u>\$0.21</u>	<u>\$0.18</u>	<u>\$0.03</u>
Total 2013			<u>\$0.84</u>	<u>\$0.84</u>	<u>\$0.72</u>	<u>\$0.12</u>

For the years ended December 31, 2014 and 2013, approximately 97.7% and 85.7% of the distributions paid to stockholders were considered taxable income and approximately 2.3% and 14.3% were considered a return of capital for federal income tax purposes, respectively.

9. Shareholders' Equity

Common Shares

The Company is authorized to issue up to 500,000,000 common shares of beneficial interest, \$.01 par value per share ("common shares"). Each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders. Holders of the Company's common shares are entitled to receive dividends when authorized by its Board of Trustees. As of December 31, 2014, 34,173,691 common shares were outstanding.

Common share stock offerings of the Company consisted of the following from inception through December 31, 2014:

<u>Type of Offering</u>	<u>Date</u>	<u>Shares Issued</u>	<u>Price per Share</u>	<u>Gross Proceeds (in millions)</u>	<u>Net Proceeds (in millions)</u>
Initial public offering	4/21/2010	8,625,000	\$20.00	\$172.5	\$158.7
Private placement offering (1)	4/21/2010	500,000	20.00	10.0	10.0
Follow-on common share offering	2/8/2011	4,000,000	16.00	64.0	60.3
Over-allotment option	2/8/2011	600,000	16.00	9.6	9.1
Follow-on common share offering	1/14/2013	3,500,000	14.70	51.4	48.4
Over-allotment option	1/31/2013	92,677	14.70	1.4	1.3
Follow-on common share offering	6/18/2013	4,500,000	16.35	73.6	70.0
Over-allotment option	6/28/2013	475,823	16.35	7.8	7.4
Follow-on common share offering	9/30/2013	3,250,000	18.35	59.6	56.7
Over-allotment option	10/11/2013	487,500	18.35	8.9	8.5
Follow-on common share offering	9/24/2014	6,000,000	21.85	131.1	125.6
Over-allotment option	9/24/2014	900,000	21.85	19.7	18.9
		<u>32,931,000</u>		<u>\$609.6</u>	<u>\$574.9</u>

(1) The Company sold 500,000 common shares to Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer ("Mr. Fisher") in a private placement concurrent with its IPO.

In January 2014, we established a \$25 million dividend reinvestment and stock purchase plan ("DRSPP"). Under the DRSPP, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company's common shares. Shareholders may also make optional cash purchases of the Company's common shares subject to certain limitations detailed in the prospectus for the DRSPP. As of December 31, 2014 and 2013, respectively, we had issued 2,083 and 0 shares under the DRSP at a weighted average price of \$24.38. As of December 31, 2014, there was approximately \$24,949 available for issuance under the DRSPP.

In January 2014, the Company established an At the Market Equity Offering ("ATM Plan") whereby, from time to time, the Company may publicly offer and sell up to \$50 million of its common shares by means of ordinary brokers' transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act, with Cantor Fitzgerald & Co. ("Cantor") acting as sales agent. As of December 31, 2014 and 2013, respectively, we had issued 880,820 and 0 shares under the ATM Plan at a weighted average price of \$23.54 in addition to the offerings discussed above. As of December 31, 2014, there was approximately \$29,264 available for issuance under the ATM Plan.

On January 13, 2015, the Company entered into a Sales Agreement (the "Barclays Sales Agreement") with Barclays Capital Inc. ("Barclays") to add Barclays as an additional sales agent under the Company's ATM Plan.

During the years ended December 31, 2014 and 2013, the Company withheld 867 and 445, respectively, of common shares of beneficial interest that had vested to executives in accordance with the Equity Incentive Plan

at a value of \$20.63 and \$16.31, respectively, per share to meet the minimum statutory tax withholding requirements of the executive which were directly remitted by the Company to the appropriate taxing jurisdiction. The price per share is determined by using the closing price of the common shares the day before they are withheld.

Preferred Shares

The Company is authorized to issue up to 100,000,000 preferred shares, \$.01 par value per share. No preferred shares were outstanding at December 31, 2014.

Operating Partnership Units

Holders of common units in the Operating Partnership, if and when issued, will have certain redemption rights, which will enable the unit holders to cause the Operating Partnership to redeem their units in exchange for, at the Company's option, cash per unit equal to the market price of the Company's common shares at the time of redemption or for the Company's common shares on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of share splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of limited partners or shareholders. As of December 31, 2014 and 2013, there were no Operating Partnership common units held by unaffiliated third parties.

At December 31, 2014 and 2013, an aggregate of 257,775 LTIP units, a special class of operating partnership units, were held by executive officers. The LTIP units receive per unit distributions equal to the per share distribution paid on common shares. Upon the closing of the Company's equity offering on September 30, 2013, the Company determined that a revaluation event occurred, as defined in the Internal Revenue Code of 1986, as amended, and 26,250 LTIPS units of one of the officers of the Company achieved full parity with the common units of the Operating Partnership with respect to liquidating distributions and all other purposes. Four-fifths of these LTIP units have vested. As of June 4, 2014, the Company determined that a revaluation event occurred, as defined in the Internal Revenue Code of 1986, as amended, and 231,525 LTIP units of the other two officers of the Company achieved full parity with the common units of the Operating Partnership with respect to liquidating distributions and all other purposes. Four-fifths of these units have vested as of December 31, 2014. Accordingly, these LTIP units will be allocated their pro-rata share of the Company's net income (loss).

10. Earnings Per Share

The two class method is used to determine earnings per share because unvested restricted shares and unvested LTIP units are considered to be participating shares. Unvested restricted shares and unvested long-term incentive plan units that could potentially dilute basic earnings per share in the future would not be included in the computation of diluted loss per share, for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented. The following is a reconciliation of the amounts used in calculating basic and diluted net income (loss) per share (in thousands, except share and per share data):

	For the year ended December 31,		
	2014	2013	2012
Numerator:			
Net income (loss)	\$ 66,873	\$ 2,982	\$ (1,450)
Dividends paid on unvested shares and units	(216)	(294)	(272)
Undistributed earnings allocated to unvested shares and units	<u>\$ (324)</u>	<u>\$ —</u>	<u>\$ —</u>
Net income (loss) attributable to common shareholders	<u>\$ 66,333</u>	<u>\$ 2,688</u>	<u>\$ (1,722)</u>
Denominator:			
Weighted average number of common shares—basic	28,531,094	21,035,892	13,811,691
Effect of dilutive securities:			
Unvested shares	<u>315,630</u>	<u>247,939</u>	<u>—</u>
Weighted average number of common shares—diluted	<u>28,846,724</u>	<u>21,283,831</u>	<u>13,811,691</u>
Basic income (loss) per Common Share:			
Net income (loss) attributable to common shareholders per weighted average common share	<u>\$ 2.32</u>	<u>\$ 0.13</u>	<u>\$ (0.12)</u>
Diluted income (loss) per Common Share:			
Net income (loss) attributable to common shareholders per weighted average common share	<u>\$ 2.30</u>	<u>\$ 0.13</u>	<u>\$ (0.12)</u>

11. Equity Incentive Plan

The Company maintains its Equity Incentive Plan to attract and retain independent trustees, executive officers and other key employees and service providers. The Equity Incentive Plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. The Equity Incentive Plan was amended and restated as of May 17, 2013 to increase the maximum number of shares available under the Equity Incentive Plan to 3,000,000 shares. Share awards under this plan generally vest over three to five years, though compensation for the Company's independent trustees includes shares granted that vest immediately. The Company pays dividends on unvested shares and units, except for performance-based shares, for which dividends on unvested performance-based shares are not paid until those shares are vested. Certain awards may provide for accelerated vesting if there is a change in control. As of December 31, 2014, there were 2,296,458 common shares available for issuance under the Equity Incentive Plan.

Restricted Share Awards

A summary of the shares granted to executive officers that have not fully vested pursuant to the Equity Incentive Plan as of December 31, 2014 are:

<u>Award Type</u>	<u>Award Date</u>	<u>Total Shares Granted</u>	<u>Vested as of December 31, 2014</u>
2012 Time-based Awards	2/23/2012	61,376	40,918
2012 Performance-based Awards	2/23/2012	53,191	35,462
2013 Time-based Awards	1/29/2013	40,829	13,611
2013 Performance-based Awards	5/17/2013	40,829	13,611
2014 Time-based Awards	1/31/2014	48,213	—
2014 Performance-based Awards	1/31/2014	38,805	—

Time-based shares will vest over a three-year period. The performance-based shares will be issued and vest over a three-year period only if and to the extent that long-term performance criteria established by the Board of Trustees are met and the recipient remains employed by the Company through the vesting date.

The Company measures compensation expense for time-based vesting restricted share awards based upon the fair market value of its common shares at the date of grant. For the performance-based shares granted in 2012, 2013 and 2014, compensation expense is based on a valuation of \$10.20, \$10.93 and \$13.17, respectively, per performance share granted, which takes into account that some or all of the awards may not vest if long-term performance criteria are not met during the vesting period. Compensation expense is recognized on a straight-line basis over the vesting period and is included in general and administrative expense in the accompanying consolidated statements of operations. The Company pays dividends on non-vested time-based restricted shares. Dividends for performance-based shares are accrued and paid annually only if and to the extent that long-term performance criteria established by the Board of Trustees are met and the recipient remains employed by the Company on the vesting date.

A summary of the Company's restricted share awards for the years ended December 31, 2014, 2013 and 2012 is as follows:

	<u>December 31, 2014</u>		<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Number of Shares</u>	<u>Weighted - Average Grant Date Fair Value</u>	<u>Number of Shares</u>	<u>Weighted - Average Grant Date Fair Value</u>	<u>Number of Shares</u>	<u>Weighted - Average Grant Date Fair Value</u>
Non-vested at beginning of the						
period	158,035	\$12.39	140,077	\$12.70	51,029	\$19.04
Granted	87,018	17.46	81,658	13.43	114,567	11.28
Vested	(65,412)	12.17	(63,700)	14.39	(25,519)	19.04
Non-vested at end of the period	<u>179,641</u>	\$14.92	<u>158,035</u>	\$12.39	<u>140,077</u>	\$12.70

As of December 31, 2014 and 2013, there were \$1,458 and \$1,214, respectively, of unrecognized compensation costs related to restricted share awards. As of December 31, 2014, these costs were expected to be recognized over a weighted-average period of approximately 1.9 years. For the years ended December 31, 2014, 2013 and 2012, the Company recognized approximately \$1,275, \$966 and \$883 respectively of expense related to the restricted share awards. This expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

Long-Term Incentive Plan Units

LTIP units are a special class of partnership interests in the Operating Partnership which may be issued to eligible participants for the performance of services to or for the benefit of the Company. Under the Equity

Incentive Plan, each LTIP unit issued is deemed equivalent to an award of one common share thereby reducing the availability for other equity awards on a one-for-one basis. The Company does not receive a tax deduction for the value of any LTIP units granted to employees. LTIP units, whether vested or not, receive the same per unit profit distributions as other outstanding units of the Operating Partnership, which profit distribution will generally equal per share dividends on the Company's common shares. Initially, LTIP units have a capital account balance of zero, and do not have full parity with common Operating Partnership units with respect to liquidating distributions. The Operating Partnership will revalue its assets upon the occurrence of certain specified events and any increase in valuation will be allocated first to the holders of LTIP units to equalize the capital accounts of such holders with the capital accounts of the Operating Partnership unit holders. If such parity is reached, vested LTIP units may be converted by the holder, at any time, into an equal number of common units of limited partnership interest in the Operating Partnership ("Common Units"), which may be redeemed, at the option of the holder, for cash or at the Company's option an equivalent number of the Company's common shares.

On April 21, 2010, the Company's Operating Partnership granted 246,960 LTIP units to the Company's executive officers pursuant to the Equity Incentive Plan, all of which are accounted for in accordance with FASB Codification Topic ("ASC") 718, "Stock Compensation". On September 9, 2010, the Company's Operating Partnership granted 26,250 LTIP units to the Company's then new Chief Financial Officer and 15,435 LTIP units granted to the Company's former Chief Financial Officer were forfeited. These LTIP units vest ratably over a five years period beginning on the date of grant.

The LTIP units' fair value was determined by using a discounted value approach. In determining the discounted value of the LTIP Units, the Company considered the inherent uncertainty that the LTIP units would never reach parity with the other Common Units and thus have an economic value of zero to the grantee. Additional factors considered in reaching the assumptions of uncertainty included discounts for illiquidity; expectations for future dividends; limited or no operating history as of the date of the grant; significant dependency on the efforts and services of our executive officers and other key members of management to implement the Company's business plan; available acquisition opportunities; and economic environment and conditions. The Company used an expected stabilized dividend yield of 5.0% and a risk free interest rate of 2.33% based on a five-year U.S. Treasury yield.

The Company recorded \$783, \$783 and \$783 in compensation expense related to the LTIP units for years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014 and 2013, there was \$267 and \$1,049, respectively, of total unrecognized compensation cost related to LTIP units. This cost is expected to be recognized over approximately 0.4 years, which represents the weighted average remaining vesting period of the LTIP units. Upon the closing of the Company's equity offering on September 30, 2013, the Company determined that a revaluation event occurred, as defined in the Internal Revenue Code of 1986, as amended, and 26,250 LTIP units of one of the officers of the Company achieved full parity with the common units of the Operating Partnership with respect to liquidating distributions and all other purposes. Four-fifths of these units have vested as of December 31, 2014. As of June 4, 2014, the Company determined that a revaluation event occurred, as defined in the Internal Revenue Code of 1986, as amended, and 231,525 LTIP units of the other two officers of the Company achieve full parity with the common units of the Operating Partnership with respect to liquidating distributions and all other purposes. Four-fifths of these units have vested as of December 31, 2014. Accordingly, these LTIP units were allocated their pro-rata share of the Company's net income.

Board of Trustee Share Compensation

For 2014, 2013 and 2012, each independent trustee was compensated \$75 for their services. Each trustee may elect to receive up to 100% of their compensation in the form of shares, but must receive at least 50% in the form of shares. In January 2014, 2013 and 2012, the Company issued 16,542, 22,536 and 27,592 common shares, respectively, to its independent trustees as compensation for services performed in 2013, 2012 and 2011, respectively. The quantity of shares was calculated based on the average of the closing price for the Company's

common shares on the NYSE for the last ten trading days preceding the reporting date. On January 15, 2015, the Company distributed 14,113 common shares to its independent trustees for services performed in 2014.

12. Commitments and Contingencies

Litigation

The nature of the operations of the hotels exposes the hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. An affiliate of the Company is currently a defendant, along with IHM, in a class action lawsuit pending in the San Diego County Superior Court. The class actions were filed on April 25, 2012 and February 27, 2013, and have subsequently been consolidated on November 8, 2013 under the title Martinez et al v. Island Hospitality Management, Inc., et al. Case No. 37-2012-00096221-CU-OE-CTL. The class actions relate to fifteen hotels operated by IHM in the state of CA and owned by affiliates of the Company, NewINK JV, INK JV, and/or certain third parties. Both complaints in the now consolidated lawsuit allege various wage and hour law violations including unpaid off-the-clock work, failure to provide meal breaks and failure to provide rest breaks. The plaintiffs seek injunctive relief, money damages, penalties, and interest. We are defending our case vigorously. As of December 31, 2014, included in accounts payable and expenses is \$287, which represents an estimate of our exposure to the litigation and is also estimated as the maximum possible loss that the Company may incur.

Hotel Ground Rent

The Altoona hotel is subject to a ground lease with an expiration date of April 30, 2029 with an extension option by the Company of up to 12 additional terms of five years each. Monthly payments are determined by the quarterly average room occupancy of the hotel. Rent is equal to approximately \$7,500 per month when monthly occupancy is less than 85% and can increase up to approximately \$20,000 per month if occupancy is 100%, with minimum rent increased on an annual basis by two and one-half percent (2.5%).

At the New Rochelle Residence Inn, there is an air rights lease and garage lease that each expires on December 1, 2104. The lease agreements with the City of New Rochelle cover the space above the parking garage that is occupied by the hotel as well as 128 parking spaces in a parking garage that is attached to the hotel. The annual base rent for the garage lease is the hotel's proportionate share of the city's adopted budget for the operations, management and maintenance of the garage and established reserves to fund the cost of capital repairs. Rent for 2014 is equal to approximately \$116.

Future minimum rental payments under the terms of all non-cancellable operating ground leases under which the Company is the lessee are expensed on a straight-line basis regardless of when payments are due. The following is a schedule of the minimum future obligation payments required under the ground, air rights and garage leases as of December 31, 2014, and for each of the next five calendar years and thereafter (in thousands):

	<u>Amount</u>
2015	\$ 210
2016	212
2017	214
2018	217
2019	219
Thereafter	<u>11,009</u>
Total	<u>\$12,081</u>

Management Agreements

The management agreements with Concord have an initial ten-year term that expire on February 28, 2017 and will renew automatically for successive one-year terms unless terminated by the TRS lessee or the manager

by written notice to the other party no later than 90 days prior to the then current term's expiration date. The management agreements may be terminated for cause, including the failure of the managed hotel operating performance to meet specified levels. If the Company were to terminate the management agreements during the first nine years of the initial term other than for breach or default by the manager, the Company would be responsible for paying termination fees to the manager.

The management agreements with IHM have an initial term of five years and may be renewed for two five-year periods at IHM's option. The IHM management agreements provide for early termination at the Company's option upon sale of any IHM-managed hotel for no termination fee, with six months advance notice. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels.

As of December 31, 2014, Terms of the Company's management agreements are:

<u>Property</u>	<u>Management Company</u>	<u>Base Management Fee</u>	<u>Monthly Accounting Fee</u>	<u>Monthly Revenue Management Fee</u>	<u>Incentive Management Fee</u>
Courtyard Altoona	Concord	4.0%	1,211	—	— %
Springhill Suites Washington	Concord	4.0%	991	—	— %
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Minneapolis-Mall of America	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Nashville- Brentwood	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Dallas-Market Center	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Hartford-Farmington	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Orlando-Maitland . .	IHM	2.0%	1,000	550	1.0%
Homewood Suites by Hilton Carlsbad (North San Diego County)	IHM	3.0%	1,000	—	1.0%
Hampton Inn & Suites Houston-Medical Center	IHM	3.0%	1,000	—	1.0%
Residence Inn Long Island Holtsville	IHM	3.0%	1,000	—	1.0%
Residence Inn White Plains	IHM	3.0%	1,000	—	1.0%
Residence Inn New Rochelle	IHM	3.0%	1,000	—	1.0%
Residence Inn Garden Grove	IHM	2.5%	1,000	—	1.0%
Residence Inn Mission Valley	IHM	2.5%	1,000	—	1.0%
Homewood Suites by Hilton San Antonio River Walk	IHM	2.5%	1,000	—	1.0%
Residence Inn Washington DC	IHM	2.5%	1,000	—	1.0%
Residence Inn Tysons Corner	IHM	2.5%	1,000	—	1.0%
Hampton Inn Portland Downtown	IHM	3.0%	1,000	550	1.0%
Courtyard Houston	IHM	3.0%	1,000	550	1.0%
Hyatt Place Pittsburgh North Shore	IHM	3.0%	1,500	1,000	1.0%
Hampton Inn Exeter	IHM	3.0%	1,200	1,000	1.0%
Hilton Garden Inn Denver Tech	IHM	3.0%	1,500	1,000	1.0%
Residence Inn Bellevue	IHM	3.0%	1,200	1,000	1.0%
Springhill Suites Savannah	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Silicon Valley I	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Silicon Valley II	IHM	3.0%	1,200	1,000	1.0%
Residence Inn San Mateo	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Mountain View	IHM	3.0%	1,200	1,000	1.0%
Hyatt Place Cherry Creek	IHM	3.0%	1,500	1,000	1.0%
Courtyard Addison	IHM	3.0%	1,500	1,000	1.0%
Courtyard West University Houston	IHM	3.0%	1,500	1,000	1.0%
Residence Inn West University Houston	IHM	3.0%	1,200	1,000	1.0%
Hilton Garden Inn Burlington	IHM	3.0%	1,500	1,000	1.0%

Base management fees are calculated as a percentage of the hotel's gross revenue. If certain financial thresholds are met or exceeded, an incentive management fee is calculated as 10% of the hotel's net operating income less fixed costs, base management fees and a specified return threshold. The incentive management fee is capped at 1% of gross hotel revenues for the applicable calculation.

Management fees totaled approximately \$6,096, \$3,752 and \$2,872, respectively, for the years ended December 31, 2014, 2013 and 2012. Incentive management fees paid to IHM for the years ended years ended December 31, 2014, 2013 and 2012 were \$161, \$63 and \$16, respectively. There have been no incentive management fees paid to Concord.

Franchise Agreements

The Company's TRS Lessees have entered into hotel franchise agreements with Promus Hotels, Inc., a subsidiary of Hilton, Hampton Inns Franchise, LLC, Marriott International, Inc., Hyatt Hotels, LLC and Hilton Garden Inns Franchise, LLC.

Terms of the Company's Franchise agreements are as of December 31, 2014:

<u>Property</u>	<u>Franchise/Royalty Fee</u>	<u>Marketing/Program Fee</u>	<u>Expiration</u>
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	4.0%	4.0%	2025
Homewood Suites by Hilton Minneapolis-Mall of America	4.0%	4.0%	2025
Homewood Suites by Hilton Nashville-Brentwood	4.0%	4.0%	2025
Homewood Suites by Hilton Dallas-Market Center	4.0%	4.0%	2025
Homewood Suites by Hilton Hartford-Farmington	4.0%	4.0%	2025
Homewood Suites by Hilton Orlando-Maitland	4.0%	4.0%	2025
Homewood Suites by Hilton Carlsbad (North San Diego County)	4.0%	4.0%	2028
Hampton Inn & Suites Houston-Medical Center	5.0%	4.0%	2020
Courtyard Altoona	5.5%	2.0%	2030
Springhill Suites Washington	5.0%	2.5%	2030
Residence Inn Long Island Holtsville	5.5%	2.5%	2025
Residence Inn White Plains	5.5%	2.5%	2030
Residence Inn New Rochelle	5.5%	2.5%	2030
Residence Inn Garden Grove	5.0%	2.5%	2031
Residence Inn Mission Valley	5.0%	2.5%	2031
Homewood Suites by Hilton San Antonio River Walk	4.0%	4.0%	2026
Residence Inn Washington DC	5.5%	2.5%	2033
Residence Inn Tysons Corner	5.0%	2.5%	2031
Hampton Inn Portland Downtown	6.0%	4.0%	2032
Courtyard Houston	5.5%	2.0%	2030
Hyatt Place Pittsburgh North Shore	5.0%	3.5%	2030
Hampton Inn Exeter	6.0%	4.0%	2031
Hilton Garden Inn Denver Tech	4.3%	5.5%	2028
Residence Inn Bellevue	5.5%	2.5%	2033
Springhill Suites Savannah	5.0%	2.5%	2033
Residence Inn Silicon Valley I	5.5%	2.5%	2029
Residence Inn Silicon Valley II	5.5%	2.5%	2029
Residence Inn San Mateo	5.5%	2.5%	2029
Residence Inn Mountain View	5.5%	2.5%	2029
Hyatt Place Cherry Creek	3-5.0%	3.5%	2034
Courtyard Addison	5.5%	2.0%	2029
Courtyard West University Houston	5.5%	2.0%	2029
Residence Inn West University Houston	6.0%	2.0%	2024
Hilton Garden Inn Burlington	5.5%	4.3%	2029

Franchise fees totaled approximately \$15,110, \$9,394 and \$7,529 , respectively, for the years ended December 31, 2014, 2013 and 2012.

13. Related Party Transactions

Mr. Fisher owns 90% of IHM. As of December 31, 2014, the Company had hotel management agreements with IHM to manage 32 of its wholly owned hotels. As of December 31, 2014, all 47 hotels owned by the NewINK JV were managed by IHM. As of December 31, 2014, 34 of the 48 hotels owned by the Inland JV were managed by IHM. Hotel management, revenue management and accounting fees paid to IHM by the Company for the years ended December 31, 2014, 2013 and 2012 were \$5.8 million, \$3.4 million and \$2.3 million, respectively. At December 31, 2014 and 2013, the amounts due to IHM were \$0.6 million and \$0.5 million, respectively. Incentive management fees paid to IHM by the Company for the years ended December 31, 2014, 2013 and 2012 were \$161, \$63 thousand and \$16 thousand, respectively.

Cost reimbursements from unconsolidated real estate entities revenue represents reimbursements of costs incurred on behalf of the Innkeepers, NewINK, Inland JVs and an entity which is 2.5% owned by Mr. Fisher. These costs relate primarily to corporate payroll costs at the Innkeepers, NewINK and Inland JVs where the Company is the employer. As the Company records cost reimbursements based upon costs incurred with no added markup, the revenue and related expense has no impact on the Company's operating income or net income. Cost reimbursements from the Innkeepers JV are recorded based upon the occurrence of a reimbursed activity.

During 2014, Mr. Fisher entered into joint venture agreement with NorthStar by which Mr. Fisher acquired a 2.5% non-voting interest in Castleblack Owner Holding, LLC ("Castleblack").

14. Quarterly Operating Results (unaudited)

	Quarter Ended—2014			
	March 31	June 30	September 30	December 31
	(in thousands, except share and per share data)			
Total revenue	\$ 36,866	\$ 47,077	\$ 60,662	\$ 52,610
Total operating expenses	34,370	42,076	45,979	48,095
Operating income	2,496	5,001	14,683	4,516
Net income (loss) attributable to common shareholders	(1,808)	65,137	8,664	(5,660)
Income (loss) per common share, basic (1)	(0.07)	2.46	0.32	(0.16)
Income (loss) per common share, diluted (1)	(0.07)	2.44	0.31	(0.16)
Weighted average number of common shares outstanding:				
Basic	26,271,678	26,437,878	27,370,815	33,972,134
Diluted	26,271,678	26,734,919	27,695,347	33,972,134

	Quarter Ended—2013			
	March 31	June 30	September 30	December 31
	(in thousands, except share and per share data)			
Total revenue	\$ 25,779	\$ 30,746	\$ 35,370	\$ 34,333
Total operating expenses	22,997	25,730	29,359	30,781
Operating income	2,782	5,016	6,011	3,552
Net income (loss) attributable to common shareholders	(1,696)	2,103	2,469	(188)
Income (loss) per common share, basic and diluted (1)	(0.1)	0.12	0.11	(0.01)
Weighted average number of common shares outstanding:				
Basic	17,212,124	18,147,108	22,508,988	26,160,823
Diluted	17,212,124	18,383,626	22,769,282	26,160,823

-
- (1) The sum of per share amounts for the four quarters may differ from the annual per share amounts due to the required method of computing weighted-average number of common shares outstanding in the respective periods and share offerings that occurred during the year. Unvested restricted shares and unvested long-term incentive plan units could potentially dilute basic earnings per share in the future were not included in the computation of diluted loss per share, for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented.

15. Subsequent Events

On January 21, 2015, the Company entered into a purchase and sale agreement to acquire an upscale extended-stay hotel located in San Diego, California for an aggregate purchase price of approximately \$90,000 (the "San Diego Acquisition"). The hotel's operations include two third-party retail restaurants and a parking garage that earns revenue from sources outside of the hotel. The hotel is subject to a ground lease. The transaction closed on February 26, 2015. The Company funded the purchase price with available cash. The hotel will be managed by IHM for a base management fee of 3.0% of the hotel's gross room revenue plus standard revenue management fee and accounting fee.

On January 27, 2015, the Company completed a follow-on common share offering that resulted in the sale of 4,025,000 common shares (including 525,000 common shares sold pursuant to the exercise of the underwriters' option to purchase additional shares) at \$30.00 per share, resulting in net proceeds of \$119.0 million to the Company after deducting underwriters' discounts and commissions and other offering expenses.

CHATHAM LODGING TRUST
SCHEDULE III—REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2014
(in thousands)

Description	Year of Acquisition	Encumbrances	Initial Cost			Gross Amount at End of Year							Year of Original Construction	Depreciation Life
			Land	Buildings & Improvements	Cost Cap. To Acq. Land	Land	Buildings & Improvements	Total	Bldg & Improvements	Accumulated Depreciation				
Homewood Suites Orlando — Maitland, FL	2010	(1)	\$ 1,800	\$ 7,200	\$ 34	\$ 1,418	\$ 1,834	\$ 8,618	\$ 10,452	\$ 8,618	\$ 1,125	2000	(2)	
Homewood Suites Boston — Billerica, MA	2010		16,225	1,470	10,555	48	1,022	1,518	11,577	13,095	11,577	1,571	1999	(2)
Homewood Suites Minneapolis — Mall of America, Bloomington, MN	2010	(1)	3,500	13,960	19	1,314	3,519	15,274	18,793	15,274	1,988	1998	(2)	
Homewood Suites Nashville — Brentwood, TN	2010	(1)	1,525	9,300	12	1,204	1,537	10,504	12,041	10,504	1,399	1998	(2)	
Homewood Suites Dallas — Market Center, Dallas, TX	2010	(1)	2,500	7,583	17	1,003	2,517	8,586	11,103	8,586	1,214	1998	(2)	
Homewood Suites Hartford — Farmington, CT	2010	(1)	1,325	9,375	92	1,274	1,417	10,649	12,066	10,649	1,433	1999	(2)	
Hampton Inn & Suites Houston — Houston, TX	2010		18,300	3,200	12,709	56	656	3,256	13,365	16,621	13,365	1,562	1997	(2)
Residence Inn Holtsville — Holtsville, NY	2010	(1)	2,200	18,765	—	923	2,200	19,688	21,888	19,688	2,275	2004	(2)	
Courtyard Altoona — Altoona, PA	2010		6,172	—	10,730	—	894	—	11,624	11,624	1,372	2001	(2)	
SpringHill Suites Washington — Washington, PA	2010		4,760	1,000	10,692	—	842	1,000	11,534	12,534	11,534	1,354	2000	(2)
Residence Inn White Plains — White Plains, NY	2010	(1)	2,200	17,677	—	4,399	2,200	22,076	24,276	22,076	2,202	1982	(2)	
Residence Inn New Rochelle — New Rochelle, NY	2010		14,832	—	20,281	9	2,377	9	22,658	22,667	22,658	2,607	2000	(2)
Homewood Suites Carlsbad — Carlsbad, CA	2010		19,950	3,900	27,520	—	92	3,900	27,612	31,512	27,612	2,883	2008	(2)
Residence Inn Garden Grove — Garden Grove, CA	2011		34,000	7,109	35,484	—	1,075	7,109	36,559	43,668	36,559	3,260	2003	(2)
Residence Inn Mission Valley — San Diego, CA	2011		30,062	9,856	39,535	—	318	9,856	39,853	49,709	39,853	3,468	2003	(2)
Homewood Suites San Antonio — San Antonio, TX	2011		17,174	5,999	24,764	2	501	6,001	25,265	31,266	25,265	2,222	1996	(2)
Doubletree Suites Washington DC — Washington, DC	2011	(1)	6,083	22,063	28	4,637	6,111	26,700	32,811	26,700	2,306	1974	(2)	
Residence Inn Tyson's Corner — Vienna, VA	2011		23,534	5,752	28,917	—	127	5,752	29,044	34,796	29,044	2,522	2001	(2)
Hampton Inn Portland Downtown — Portland, ME	2012	(1)	4,315	22,664	—	3	4,315	22,667	26,982	22,667	1,141	2011	(2)	
Courtyard Houston — Houston, TX	2013		19,475	5,600	27,350	—	99	5,600	27,449	33,049	27,449	1,304	2010	(2)
Hyatt Place Pittsburgh — Pittsburgh, PA	2013		23,657	3,000	35,576	—	113	3,000	35,689	38,689	35,689	1,380	2011	(2)
Hampton Inn & Suites Exeter — Exeter, NH	2013	(1)	1,900	12,350	4	4	1,904	12,354	14,258	12,354	431	2010	(2)	
Hilton Garden Inn Denver Tech — Denver, CO	2013	none	4,100	23,100	5	351	4,105	23,451	27,556	23,451	741	1999	(2)	
Residence Inn Bellevue — Bellevue, WA	2013		47,580	13,800	56,957	—	232	13,800	57,189	70,989	57,189	1,668	2008	(2)
SpringHill Suites Savannah — Savannah, GA	2013		30,000	2,400	36,050	—	123	2,400	36,173	38,573	36,173	970	2009	(2)
Residence Inn Silicon Valley I — Sunnyvale, CA	2014		64,800	42,652	45,846	—	67	42,652	45,913	88,565	45,913	1,726	1983	(2)
Residence Inn Silicon Valley II — Sunnyvale, CA	2014		70,700	46,474	50,380	—	51	46,474	50,431	96,905	50,431	1,896	1985	(2)
Residence Inn San Mateo — San Mateo, CA	2014		48,600	38,420	31,352	—	89	38,420	31,441	69,861	31,441	1,182	1985	(2)
Residence Inn Mt. View — Mountain View, CA	2014		37,900	22,019	31,813	—	32	22,019	31,845	53,864	31,845	1,198	1985	(2)
Hyatt Place Cherry Creek — Cherry Creek, CO	2014	none	3,700	26,300	—	14	3,700	26,314	30,014	26,314	225	1987	(2)	
Courtyard Addison — Dallas, TX	2014	none	2,413	21,554	—	—	2,413	21,554	23,967	21,554	66	2000	(2)	
Courtyard West University — Houston, TX	2014	none	2,012	17,916	—	—	2,012	17,916	19,928	17,916	56	2004	(2)	
Residence Inn West University — Houston, TX	2014	none	3,640	25,631	—	—	3,640	25,631	29,271	25,631	79	2004	(2)	
Hilton Garden Inn Burlington — Burlington, MA	2014	none	4,918	27,193	—	—	4,918	27,193	32,111	27,193	84	1975	(2)	
Grand Total(s)			\$260,782	\$819,142	\$326	\$25,254	\$261,108	\$844,396	\$1,105,504	\$844,396	\$50,910			

(1) This property is pledged as collateral to borrowings made under the revolving credit facility obtained on October 12, 2010, which had outstanding borrowings of \$22,500 as of December 31, 2014.

(2) Depreciation is computed based upon the following estimated useful lives:

	Years
Building	40
Land improvements	20
Building improvements	5-20

Notes:

(a) The change in total cost of real estate assets for the year ended is as follows:

	2014	2013	2012	2011	2010
Balance at the beginning of the year	\$ 654,560	\$ 423,729	\$ 392,463	\$ 200,974	—
Acquisitions	444,233	222,273	26,979	185,995	200,967
Dispositions during the year	—	—	(951)	—	—
Capital expenditures and transfers from construction-in-progress	6,711	8,558	5,238	5,494	7
Investment in Real Estate	<u>\$1,105,504</u>	<u>\$654,560</u>	<u>\$423,729</u>	<u>\$392,463</u>	<u>\$200,974</u>

(b) The change in accumulated depreciation and amortization of real estate assets for the year ended is as follows:

	2014	2013	2012	2011	2010
Balance at the beginning of the year	\$ 28,980	\$ 17,398	\$ 8,394	\$ 1,901	—
Depreciation and amortization	21,930	11,582	9,004	6,493	1,901
Balance at the end of the year	<u>\$ 50,910</u>	<u>\$ 28,980</u>	<u>\$ 17,398</u>	<u>\$ 8,394</u>	<u>\$ 1,901</u>

(c) The aggregate cost of properties for federal income tax purposes (in thousands) is approximately \$1,096,425 as of December 31, 2014.

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

**FORM 10-K/A
(Amendment No. 1)**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

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: 001-34693

CHATHAM LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

50 Coconut Row, Suite 211
Palm Beach, Florida
(Address of Principal Executive Offices)

27-1200777
(I.R.S. Employer
Identification No.)

33480
(Zip Code)

(561) 802-4477

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Shares of Beneficial Interest, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The aggregate market value of the 26,877,757 common shares of beneficial interest held by non-affiliates of the registrant was \$588,622,878.30 based on the closing sale price on the New York Stock Exchange for such common shares of beneficial interest as of June 30, 2014.

The number of common shares of beneficial interest outstanding as of March 16, 2015 was 38,298,287.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2015 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission on or before April 30, 2015) are incorporated by reference into this Annual Report on Form 10-K in response to Part III hereof.

EXPLANATORY NOTE

Chatham Lodging Trust is filing this Amendment No. 1 (“Amendment No. 1”) to its Annual Report on Form 10-K (the “Report”) for the fiscal year ended December 31, 2014 filed with the Securities and Exchange Commission on March 16, 2015. As disclosed in the Report, the Company had two equity method investments that met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X as of December 31, 2014.

Amendment No. 1 to the Report is being filed solely to include the separate financial statements of INK Acquisition, LLC & Affiliates (“NewINK JV”) and IHP I Owner JV, LLC and Affiliates (“Inland JV”), as provided in Exhibit 99.1 and 99.2, respectively, attached hereto. In connection with the filing of this Amendment No. 1 to the Report and pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, the currently dated certifications of the principal executive officer and principal financial officer of the Company are attached as exhibits hereto.

Except as otherwise expressly noted herein, this Amendment No. 1 to the Report does not amend any other information set forth in the Report, and we have not updated disclosures therein to reflect any events that occurred at a date subsequent to the date of the Report. Accordingly, this Amendment No. 1 should be read in conjunction with our original Form 10-K.

Item 15. Exhibits and Financial Statement Schedules.

1. Financial Statements

Included at pages F-1 through F-6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission on March 16, 2015.

2. Financial Statement Schedules

The following financial statement schedule is included at pages F-34 through F35 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission on March 16, 2015: Schedule III — Real Estate and Accumulated Depreciation.

The audited financial statements of NewINK JV and Inland JV as required by Item 3-09 of Regulation S-X are included in Exhibits 99.1 and 99.2 hereto, respectively, and are incorporated by reference herein.

3. A list of exhibits required to be filed as part of this report on Form 10-K is set forth in the Exhibit Index, which immediately follows this item.

Exhibit Index

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Declaration of Trust of Chatham Lodging Trust ⁽¹⁾
3.2	Articles Supplementary ⁽³⁾
3.3	Amended and Restated Bylaws of Chatham Lodging Trust ⁽⁴⁾
10.1*	Chatham Lodging Trust Equity Incentive Plan, Amended and Restated as of May 17, 2013 ⁽⁵⁾
10.2(a)*	Form of Employment Agreement between Chatham Lodging Trust and Jeffrey H. Fisher ⁽¹⁾
10.2(b)*	Form of Employment Agreement between Chatham Lodging Trust and Peter Willis ⁽¹⁾
10.2(c)*	Form of Employment Agreement between Chatham Lodging Trust and Dennis M. Craven ⁽⁶⁾
10.3*	Form of Indemnification Agreement between Chatham Lodging Trust and its officers and trustees ⁽¹⁾
10.4*	Form of LTIP Unit Vesting Agreement ⁽¹⁾
10.5*	Form of Share Award Agreement for Trustees ⁽¹⁾
10.6*	Form of Share Award Agreement for Officers ⁽²⁾
10.7*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Jeffrey H. Fisher ⁽⁷⁾
10.8*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Dennis M. Craven ⁽⁷⁾
10.9*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Peter Willis ⁽⁷⁾
10.10*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Jeffrey H. Fisher (Performance-Based Share Awards) ⁽⁷⁾
10.11*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Dennis M. Craven (Performance-Based Share Awards) ⁽⁷⁾
10.12*	Share Award Agreement, dated as of January 31, 2014, between Chatham Lodging Trust and Peter Willis (Performance-Based Share Awards) ⁽⁷⁾
10.13	Agreement of Limited Partnership of Chatham Lodging, L.P. ⁽¹⁾
10.14	Form of IHM Hotel Management Agreement ⁽¹⁾
10.15	Amended and Restated Credit Agreement, dated as of November 5, 2012, among Chatham Lodging Trust, Chatham Lodging, L.P., as borrower, the lenders and other guarantors party thereto and Barclays Bank PLC, as administrative agent ⁽⁸⁾
10.16	Form of Amended and Restated Limited Liability Company Agreement of INK Acquisition II LLC, dated October 27, 2011, by and among CRE-Ink Member II Inc. and Chatham TRS Holding Inc. ⁽⁹⁾
10.17	First Amendment to Amended and Restated Credit Agreement, dated as of December 11, 2013, among Chatham Lodging Trust, Chatham Lodging, L.P., as borrower, the lenders party thereto and Barclays Bank PLC, as administrative agent ⁽¹⁰⁾
10.18	Purchase and Sale agreement, dated May 8, 2014, by and among the entities set forth on Schedule A thereto, Chatham Lodging, LP, NewINK JV and certain individual owners. ⁽¹¹⁾

Exhibit Number	Description of Exhibit
10.19	Third Amended and Restated Limited Liability Company Agreement of INK Acquisition LLC, dated as of June 9, 2014, by and between Platform Member-T, LLC and Chatham Lodging, L.P. ⁽¹¹⁾
10.20	Second Amended and Restate Limited Liability Company Agreement of INK Acquisition III, LLC, dated as of June 9, 2014, by and between Platform Member Holdings-T Cam2, LLC and Chatham TRS Holding, Inc. ⁽¹¹⁾
10.21	Loan Agreement, dated as of June 9, 2014, between Grand Prix Sili II, LLC, as borrower, and JP Morgan Chase Bank, National Association, as lender. ⁽¹¹⁾
10.22	Sales Agreement, dated January 31, 2014, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Cantor Fitzgerald & Co. ⁽¹²⁾
10.23	Limited Liability Company Agreement of IHP I Owner JV, LLC, dated as of November 17, 2014, by and between Platform Member II-T, LLC and Chatham IHP, LLC. ⁽¹³⁾
10.24	Limited Liability Company Agreement of IHP I Owner OPs JV, LLC, dated as of November 17, 2014, by and between Platform Member Holdings II-T Cam2, LLC and Chatham TRS Holding, Inc. ⁽¹³⁾
10.25	Sales Agreement, dated January 13, 2015 by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Barclays Capital Inc. ⁽¹⁴⁾
10.26*	First Amendment to Employment Agreement of Peter Willis dated January 30, 2015. ⁽¹⁵⁾
10.27*	First Amendment to Employment Agreement of Dennis Craven dated January 30, 2015. ⁽¹⁵⁾
12.1	Statement of computation of ratio of earnings to fixed charges and preferred share dividends. ⁽¹⁶⁾
21.1	List of Subsidiaries of Chatham Lodging Trust. ⁽¹⁶⁾
23.1	PricewaterhouseCoopers LLP Consent to include Report on Financial Statements of Chatham Lodging Trust. ⁽¹⁶⁾
23.2	PricewaterhouseCoopers LLP Consent to include Report on Financial Statements of INK Acquisition, LLC & Affiliates.
23.3	Grant Thornton LLP Consent to include Report on Financial Statements of INK Acquisition, LLC & Affiliates and IHP I Owner JV, LLC and Affiliates.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	INK Acquisition, LLC & Affiliates Combined Balance Sheets as of December 31, 2014 and 2013, and Combined Statements of Operations, Combined Statements of Owners' Equity (Deficit) and Combined Statement of Cash Flows for the periods from June 9, 2014 to December 31, 2014; January 1, 2014 to June 9, 2014 and the years ended December 31, 2013 and 2012.
99.2	IHP Owner JV, LLC and Affiliates Combined Balance Sheet as of December 31, 2014, and Combined Statements of Operations, Combined Statements of Owners' Equity and Combined Statement of Cash Flows for the period from November 17, 2014 through December 31, 2014.
101.INS	XBRL Instance Document ⁽¹⁶⁾

Exhibit Number	Description of Exhibit
101.SCH	XBRL Taxonomy Extension Schema Document ⁽¹⁶⁾
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document ⁽¹⁶⁾
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document ⁽¹⁶⁾
101.LAB	XBRL Taxonomy Extension Label Linkbase Document ⁽¹⁶⁾
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document ⁽¹⁶⁾

* Denotes management contract or compensation plan or arrangement in which trustees or officers are eligible to participate.

- (1) Incorporated by reference to Amendment No. 4 to the Registrant's Registration Statement on Form S-11 filed with the SEC on February 12, 2010 (File No. 333-162889).
- (2) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 13, 2010 (File No. 001-34693).
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 13, 2013.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2014.
- (5) Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed on April 15, 2013 (File No. 001-34693).
- (6) Incorporated by reference to the Registrant's Registration Statement on Form S-11 filed with the SEC on October 28, 2010 (File No. 333-170176).
- (7) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2014 (File No. 001-34693).
- (8) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 15, 2013.
- (9) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 9, 2012.
- (10) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on December 13, 2013.
- (11) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014 (File No. 001-34693).
- (12) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on January 31, 2014.
- (13) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on November 20, 2014.
- (14) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on January 15, 2015.
- (15) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on February 5, 2015.
- (16) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 16, 2015.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHATHAM LODGING TRUST

Dated: April 2, 2015

/s/ JEFFREY H. FISHER

Jeffrey H. Fisher
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

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INK Acquisition, LLC & Affiliates

Financial Statements

**As of December 31, 2014 and 2013 and For the Periods from June 9, 2014 to
December 31, 2014; January 1, 2014 to June 9, 2014 and the years ended
December 31, 2013 and 2012**

With Reports of Independent Certified Public Accountants

Report of Independent Certified Public Accounting Firm

To the Partners of
INK Acquisition, LLC

We have audited the accompanying combined financial statements of INK Acquisition, LLC (a Delaware limited liability company) & affiliates, which comprise the combined balance sheet as of December 31, 2014 (Successor), and the related combined statements of operations, changes in owners' equity, and cash flows for the period June 9, 2014 through December 31, 2014 (Successor), and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of INK Acquisition, LLC & Affiliates as of December 31, 2014 (Successor) and the results of their operations and their cash flows for the period from June 9, 2014 through December 31, 2014 (Successor) in accordance with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP
Philadelphia, Pennsylvania
April 2, 2015

Report of Independent Certified Public Accountants

To the Partners of
INK Acquisition, LLC & Affiliates

We have audited the accompanying combined financial statements of INK Acquisition, LLC & Affiliates, which comprise the combined balance sheet as of December 31, 2013, and the related combined statements of operations, changes in owners' equity (deficit), and cash flows for the years ended December 31, 2013 and 2012 and for the period from January 1, 2014 to June 9, 2014.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of INK Acquisition, LLC & Affiliates at December 31, 2013, and the results of their operations and their cash flows for the years ended December 31, 2013 and 2012 and for the period from January 1, 2014 to June 9, 2014 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP
Fort Lauderdale, Florida
March 31, 2015

INK Acquisition, LLC & Affiliates
Combined Balance Sheets
(In thousands)

	Successor	Predecessor
	December 31, 2014	December 31, 2013
Assets:		
Investment in hotel properties, net	\$ 929,635	\$ 843,442
Cash and cash equivalents	9,199	22,850
Restricted cash	80,793	58,082
Hotel receivables (net of allowance for doubtful accounts of \$389 and \$400, respectively)	5,828	3,371
Deferred costs, net	13,677	20,622
Prepaid expenses and other assets	5,389	5,145
Total assets	<u>\$1,044,521</u>	<u>\$ 953,512</u>
Liabilities and Owner's Equity:		
Debt	\$ 840,000	\$ 950,000
Accounts payable and accrued expenses	19,540	18,863
Total liabilities	<u>859,540</u>	<u>968,863</u>
Commitments and contingencies		
Owners' Equity (Deficit)		
Contributions	215,282	360,000
Distributions and accumulated deficit	(30,301)	(375,351)
Total owners' equity (deficit)	<u>184,981</u>	<u>(15,351)</u>
Total liabilities and owners' equity (deficit)	<u>\$1,044,521</u>	<u>\$ 953,512</u>

The accompanying notes are an integral part of these combined financial statement.

INK Acquisition, LLC & Affiliates
Combined Statements of Operations
(In thousands)

	Successor	Predecessor		
	Period from June 9, 2014 through December 31, 2014	Period from January 1, 2014 through June 9, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
Revenue:				
Room	\$129,138	\$112,588	\$246,931	234,576
Food and beverage	7,112	4,640	11,749	11,263
Other	3,166	2,390	5,518	5,773
Total revenue	<u>139,416</u>	<u>119,618</u>	<u>264,198</u>	<u>251,612</u>
Expenses:				
Hotel operating expenses:				
Room	26,960	23,049	49,658	47,738
Food and beverage expense	5,315	3,881	8,794	8,486
Telephone expense	1,183	957	2,119	2,073
Other hotel operating expense	1,327	1,067	2,474	2,472
General and administrative	12,629	11,053	24,630	23,388
Franchise and marketing fees	10,385	8,614	19,021	17,925
Advertising and promotions	3,186	3,090	6,856	7,778
Utilities	6,111	5,624	11,670	11,158
Repairs and maintenance	7,087	6,740	14,444	14,135
Management fees	—	—	—	261
Management fees to related party	4,797	3,185	6,347	6,750
Insurance	1,036	855	2,082	1,361
Total hotel operating expenses	<u>80,016</u>	<u>68,115</u>	<u>148,095</u>	<u>143,525</u>
Depreciation and amortization	25,214	20,809	50,127	51,622
Property taxes and insurance	6,676	5,834	12,595	11,828
General and administrative	1,798	2,753	4,898	4,774
Hotel property acquisition costs and other charges	19,868	28	24	413
Total operating expenses	<u>133,572</u>	<u>97,539</u>	<u>215,739</u>	<u>212,162</u>
Operating income	5,844	22,079	48,459	39,450
Interest and other income	35	42	233	62
Interest expense, including amortization of deferred fees	(21,180)	(24,571)	(55,672)	(55,605)
Loss on early extinguishment of debt	—	—	(8,863)	—
Loss from continuing operations	<u>(15,301)</u>	<u>(2,450)</u>	<u>(15,843)</u>	<u>(16,093)</u>
Income (loss) from discontinued operations	—	—	(274)	(404)
Gain (loss) on sale of discontinued operations	—	—	(2,456)	2,496
Net income (loss) from discontinued operations	—	—	(2,730)	2,092
Net loss	<u>(15,301)</u>	<u>(2,450)</u>	<u>(18,573)</u>	<u>(14,001)</u>

The accompanying notes are an integral part of these combined financial statement.

INK Acquisition, LLC & Affiliates
Combined Statements of Owners' Equity (Deficit)
(In thousands)

	<u>Contributions</u>	<u>Accumulated Deficit/Gain</u>	<u>Distributions/ Other</u>	<u>Total Equity</u>
Predecessor				
Balance at January 1, 2012	\$360,000	\$(10,086)	—	\$ 349,914
Net loss	—	(14,001)	—	(14,001)
Distributions	—	—	(206,297)	(206,297)
Balance at December 31, 2012	<u>360,000</u>	<u>(24,087)</u>	<u>(206,297)</u>	<u>129,616</u>
Net loss	—	(18,573)	—	(18,573)
Distributions	—	—	(126,394)	(126,394)
Balance at December 31, 2013	<u>360,000</u>	<u>(42,660)</u>	<u>(332,691)</u>	<u>(15,351)</u>
Net Loss	—	(2,450)	—	(2,450)
Distributions	—	—	(4,000)	(4,000)
Balance at June 9, 2014	<u>\$360,000</u>	<u>\$(45,110)</u>	<u>\$(336,691)</u>	<u>\$ (21,801)</u>
Successor				
Balance, beginning of period, June 9, 2014	\$ —	\$ —	\$ —	\$ —
Net loss	—	(15,301)	—	(15,301)
Contributions	215,282	—	—	215,282
Distributions	—	—	(15,000)	(15,000)
Balance at December 31, 2014	<u>\$215,282</u>	<u>\$(15,301)</u>	<u>\$ (15,000)</u>	<u>\$ 184,981</u>

The accompanying notes are an integral part of these combined financial statement.

INK Acquisition, LLC & Affiliates
Combined Statement of Cash Flows
(In thousands)

	Successor	Predecessor		
	Period from June 9, 2014 through December 31, 2014	Period from January 1, 2014 through June 9, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
Cash flow from operating activities:				
Net loss	\$ (15,301)	\$ (2,450)	\$ (18,573)	(14,001)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation	25,072	20,659	48,869	49,068
Loss on early extinguishment of debt	—	—	4,381	—
Amortization of deferred franchise fees	142	150	1,264	2,594
Amortization of deferred financing costs included in interest expense	3,775	2,819	3,517	1,906
Impairment on hotels classified as held for sale	—	—	—	2,894
Loss (gain) on sale of hotels in discontinued operations	—	—	2,456	(2,496)
Changes in assets and liabilities:				
Hotel receivables	(5,828)	(4,272)	214	3,331
Prepaid expenses and other assets	(5,389)	(1,100)	1,209	(4,299)
Deferred costs	(191)	(19)	11	1,194
Accounts payable and accrued expenses	19,540	7,753	(6,895)	5,215
Net cash provided by operating activities	<u>21,820</u>	<u>23,540</u>	<u>36,453</u>	<u>45,406</u>
Cash flows from investing activities:				
Investment in hotel properties, net of cash received	(911,733)	—	—	—
Improvements and additions to hotel properties	(20,856)	(17,135)	(30,133)	(19,901)
Proceeds from sale of assets	—	—	11,300	63,113
Payments for franchise fees and intangibles	(3,954)	—	—	—
Restricted cash	(80,793)	521	(32,284)	(284)
Net cash provided by (used in) investing activities	<u>(1,017,336)</u>	<u>(16,614)</u>	<u>(51,117)</u>	<u>42,928</u>
Cash flows from financing activities:				
Proceeds from the issuance of long-term debt	840,000	—	950,000	130,000
Payments of financing costs	(13,450)	—	(19,111)	(4,771)
Payments on debt	—	—	(792,239)	(12,761)
Payment of franchise obligation	—	—	(1,323)	(1,804)
Contributions from owners	193,165	—	—	—
Distributions to owners	(15,000)	(4,000)	(126,394)	(206,297)
Net cash provided by (used in) financing activities	<u>1,004,715</u>	<u>(4,000)</u>	<u>10,933</u>	<u>(95,633)</u>
Change in cash and cash equivalents for assets held for sale	—	—	27	(29)
Net change in cash and cash equivalents	9,199	2,926	(3,731)	(7,299)
Cash and cash equivalents, beginning of period	—	22,850	26,554	33,882
Cash and cash equivalents, end of period	<u>\$ 9,199</u>	<u>\$ 25,776</u>	<u>\$ 22,850</u>	<u>\$ 26,554</u>
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 15,628	\$ 20,076	53,139	\$ 53,131
Supplemental disclosure of non-cash information:				
Accrued improvements and additions to hotel properties	\$ 857	\$ 1,407	\$ 1,594	932
Chatham's equity was rolled-over from the Predecessor company	\$ 22,117			
Non-cash changes related to distribution of four hotels to predecessor owner and successor recapitalization:				
Investment in hotel properties		\$ 92,127		
Net change in operating assets and liabilities		34,432		
Debt		(110,000)		

See Note 3 to the financial statements for a description of assets and liabilities acquired in connection with the acquisition of 47 hotels from Innkeepers Cerberus JV on June 9, 2014.

The accompanying notes are an integral part of these combined financial statement.

INK Acquisition, LLC & Affiliates
Notes to Financial Statements
(dollars in thousands)

1. Organization

Predecessor

INK Acquisition, LLC and a series of affiliated partnerships (see below) were formed in 2011 to acquire the assets and associated operations of 64 hotels as a result of the bankruptcy reorganization plan of affiliates of Innkeepers USA Trust (“Innkeepers”). The affiliated partnerships, which are under common control, combined in these financial statements are as follows:

INK Acquisition II, LLC
INK Acquisition III, LLC
INK Acquisition IV, LLC
INK Acquisition V, LLC
INK Acquisition VI, LLC
INK Acquisition VII, LLC

INK Acquisition, LLC and the affiliated partnerships above formed a joint venture (“Old Ink JV”) and were each owned 89.7% by CRE-Ink REIT Member, LLC and its affiliates (“Cerberus”) and 10.3% by Chatham Lodging, L.P. (“Chatham”). In addition, an entity owned by Jeffrey H. Fisher, the Chairman and Chief Executive Officer of Chatham Lodging Trust, the sole general partner of Chatham, owned a 0.5% non-voting interest in CRE-Ink REIT Member, LLC. The Company had no substantive operations until October 27, 2011 when the 64 hotels were acquired. From 2011 to 2013, the Old Ink JV sold 13 of the 64 hotels.

In connection with a recapitalization transaction which closed on June 9, 2014, INK Acquisition II, LLC was dissolved and Ink Acquisition IV, V, VI and VII were contributed to INK Acquisition, LLC. The other four hotels that were part of Old Ink JV were sold to Chatham. Hereinafter referred to collectively as “Old Ink JV”.

Successor

After June 9, 2014, INK Acquisition, LLC owns 47 hotel properties through various limited liability companies. The properties are leased to INK Acquisition III, LLC (hereinafter referred to as the “Affiliate Lessee”). INK Acquisition, LLC and the Affiliated Lessee are under common control. Through wholly owned subsidiaries, NorthStar Realty Finance Corp. (“NorthStar”) acquired Cerberus’ 89.7% interest in both INK Acquisition, LLC and the Affiliated Lessee, while the remaining 10.3% in these entities are owned by Chatham. The new joint venture is referred to herein collectively as “Successor”.

At December 31, 2014, the Successor owns 47 hotels with an aggregate of 6,094 (unaudited) rooms located in 16 states. At December 31, 2014, the Successor hotels operate under the following brands: Residence Inn by Marriott (30 hotels), Hampton Inn by Hilton (5 hotels), Hyatt House (5 hotels), Courtyard by Marriott (3 hotels), Four Points by Sheraton (1 hotel), Sheraton (1 hotel), TownePlace Suites (1 hotel), and Westin (1 hotel). As of December 31, 2014, Island Hospitality Management Inc. (“IHM”), which is 90% owned by Jeffrey H. Fisher, manages all 47 of the Successor’s hotels.

2. Summary of Significant Accounting Policies

Basis of Presentation

The combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The combined

financial statements include all of the accounts of INK Acquisition, LLC and its subsidiaries and all of the accounts of Affiliate Lessee. Combined financial statements of INK Acquisition, LLC and the Affiliate Lessee, which are under common control and common management, have been presented in order to provide more meaningful presentation of the operations of INK Acquisition LLC. All intercompany accounts and transactions have been eliminated. Due to the change in control on June 9, 2014 described above, the assets and liabilities have been remeasured to fair value in the financial statements of the Successor. See footnote 3 for further details.

These financial statements present information for the Old Ink JV under the header “Predecessor” and for the Successor under the header “Successor”. References to “Company” hereinafter refers to the accounting policies of both Successor and Old Ink JV.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allocation of the purchase price of hotels, the allowance for doubtful accounts and the fair value of hotels that are held for sale or impaired.

Fair Value of Financial Instruments

FASB guidance on fair value measurements and disclosures defines fair value for GAAP and establishes a framework for measuring fair value as well as a fair value hierarchy based on the quality and nature of inputs used to measure fair value. The term “fair value” in these financial statements is defined in accordance with GAAP. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date;

Level 2 Inputs represent other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs are those that are unobservable.

The carrying value of the Company’s cash, accounts receivables, accounts payable and accrued expenses approximate fair value because of the relatively short maturities of these instruments. The Company is not required to carry any other assets or liabilities at fair value on a recurring basis other than its interest caps. The interest rate caps are valued using Level 3 inputs and are valued at \$144 and \$1,065 as of December 31, 2014 (Successor) and 2013 (Predecessor), respectively.

When the Company classifies an asset as held for sale, the Company assesses whether the asset’s carrying value is greater than fair value less selling costs. If so, the asset is written down to fair value less selling costs on a nonrecurring basis. The fair value determinations are based on Level 3 inputs as they are generally based on broker quotes or other comparable sales information.

The Company also disclosed the fair value of its variable rate debt based on estimates of current terms the Company would expect to receive under the current market conditions, as compared to the terms and conditions of the Company’s debt. The fair value determination is based on level 3 inputs as they are based on the fair value hierarchy.

Investment in Hotel Properties

The Company allocates the purchase prices of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, identifiable intangible assets and assumed liabilities. In making estimates of fair value for purposes of allocating the purchase price, the Company utilizes a number of sources of information that are obtained in connection with the acquisition of a hotel property, including valuations performed by independent third parties and information obtained about each hotel property resulting from pre-acquisition due diligence. Hotel property acquisition costs are expensed in the period incurred.

The Company's investment in hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 15-40 years for buildings, 20 years for land improvements, 15 years for building improvements and three to ten years for furniture, fixtures and equipment. Renovations and replacements at the hotel properties that improve or extend the life of the assets are capitalized and depreciated over their useful lives, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the Company's accounts and any resulting gain or loss is recognized in the combined statements of operations.

The Company periodically reviews its hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows, without interest charges, from operations and the net proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value is recorded and an impairment loss recognized. No impairment charges on hotels held for use were recorded for any of the periods presented, except for \$2,894 (Predecessor) for the year ended December 31, 2012.

The Company will consider a hotel property as held for sale when either (i) the Company determines it will be actively selling the hotel or (ii) a binding agreement to purchase the property has been signed under which the buyer has committed a significant amount of nonrefundable cash, no significant financing contingencies exist which could cause the transaction not to be completed in a timely manner and the sale is expected to occur within one year. If these criteria are met, depreciation and amortization of the hotel property ceases and the carrying value of each hotel is recorded at the lower of its carrying value or its estimated fair value less estimated costs to sell. The Company classifies together with the related operating results, as discontinued operations in the combined statements of operations and classifies the assets and related liabilities as held for sale in the combined balance sheets for all periods presented. As of December 31, 2014, the Company has no hotel properties held for sale.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short term liquid investments with an original maturity when purchased of three months or less. Cash balances in individual banks may exceed federally insurable limits.

Restricted Cash

Restricted cash represents escrows for reserves required pursuant to the Company's loans or hotel management agreements. Included in restricted cash on the accompanying combined balance sheet at December 31, 2014 and December 31, 2013, respectively, are renovation, property tax and insurance escrows of \$80,793 (Successor), and \$58,082 (Predecessor). The hotel mortgage loan agreements require the Successor to

fund 4% of gross hotel revenues on a monthly basis for furnishings, fixtures and equipment and general repair maintenance reserves (“Replacement Reserve”), in addition to property tax and insurance reserves, into an escrow account held by Lender.

Hotel Receivables

Hotel receivables consist of amounts owed by guests staying at the Company’s hotels at year end and amounts due from business and group customers. An allowance for doubtful accounts is provided and maintained at a level believed to be adequate to absorb estimated losses. At December 31, 2014 and 2013, the allowance for doubtful accounts was \$389 (Successor) and \$400 (Predecessor), respectively.

Deferred Costs

Deferred costs consisted of the following at December 31, 2014 and December 31, 2013:

Deferred costs	<u>Successor</u>	<u>Predecessor</u>
	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loan costs	\$13,450	\$19,110
Franchise fees	3,954	3,801
Other	202	4,053
	<u>17,606</u>	<u>26,964</u>
Less accumulated amortization	(3,929)	(6,342)
Deferred costs, net	<u>\$13,677</u>	<u>\$20,622</u>

On June 9, 2014, deferred costs associated with the Old Ink JV were revalued to zero. Loan costs are recorded by the Company at cost and amortized over a straight-line basis, which approximates the effective interest rate method, over the term of the respective loan. Franchise fees are recorded by the Company at cost and amortized over a straight-line basis over the term of the respective franchise agreements. At December 31, 2014, and 2013, other deferred costs primarily relate to franchise conversion costs of \$0 (Successor) and \$3,494 (Predecessor), respectively. For the 2014 period related to the Successor, there is no amortization expense related to franchise conversion fees. For the 2014, 2013 and 2012 period and years related to the Predecessor, amortization expense related to franchise conversion fees and franchise fee of \$0, \$1,264 and \$2,594, respectively, is included in depreciation and amortization in the combined statements of operations. Amortization expense related to loan costs of \$3,772 for the 2014 Successor period and for the Predecessor, \$2,802 for Old Ink JV in the 2014 Predecessor period, \$3,470 (Predecessor) for 2013 and \$1,906 (Predecessor) for 2012, respectively, is included in interest expense in the combined statement of operations.

Prepaid Expenses and Other Assets

The Company’s prepaid expenses and other assets consist of prepaid insurance, deposits, hotel supplies inventory and the fair value of the Company’s interest rate caps.

Accounting for derivative instruments

The Company records its derivative instruments on the balance sheet at their estimate fair value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether a derivative is designated as part of a hedging relationship and, if it is, depending on the type of hedging relationship. The Company’s interest rate caps are not designated as a hedge but to eliminate the incremental cost to the Company if one-month LIBOR interest rate were to exceed 2.5% for the Successor period ending December 31, 2014 and 2.75% for the Predecessor year ended December 31, 2013. Accordingly, the interest rate caps are recorded on the balance sheet at estimated fair value with realized and unrealized changes in the fair value reported in the combined statements of operations.

Revenue Recognition

Revenue from hotel operations is recognized by the Company when rooms are occupied and when services are provided. Revenue consists of amounts derived from hotel operations, including sales from room, meeting room, restaurants, gift shop, in-room movie and other ancillary amenities. Sales, use, occupancy, and similar taxes are collected and presented on a net basis (excluded from revenue) in the accompanying combined statements of operations.

Income Taxes

The Company is a limited liability company (“LLC”) and has elected to be taxed as a partnership. Therefore, the Company is solely a pass-through entity and does not have any federal or state income tax liabilities. Accordingly, the Company does not record a provision for income taxes because the members report their share of the Company’s income or loss on their income tax returns.

The Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The recognition of any tax benefit is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. De-recognition of a tax benefit previously recognized results in the Company recording a tax liability that reduces ending members’ capital. Based on its analysis, the Company has determined that it has not recognized any tax benefit nor incurred any liability for unrecognized tax benefits as of December 31, 2014. However, the Company’s conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analyses of and changes to tax laws, regulations and interpretations thereof.

The Company recognizes interest and penalties related to unrecognized tax benefits in interest expense and other expenses, respectively. No interest expense or penalties have been recognized as of and for the year ended December 31, 2014.

The Company files income tax returns in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states. The Company is subject to income tax examinations by major taxing authorities for all previous income tax returns filed.

Recently Issued Accounting Standards

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s operations and financial results or a business activity classified as held for sale upon acquisition should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014. Early adoption is only permitted for disposals that have not been reported in financial statements previously issued. The Predecessor adopted this accounting standard update effective January 1, 2014 and the implementation of the amended guidance did not have a material impact on the Company’s combined financial position or results of operations in either the Predecessor or Successor periods. We expect these amendments to impact the Successor’s determination of which future property disposals qualify as discontinued operations as well as requiring additional disclosures about discontinued operations.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in

GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to perform interim and annual assessments of an entity's ability to continue within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This guidance is effective for the Company on January 1, 2017 and will not have an impact on the Company's financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02 Amendments to the Consolidation Analysis, which requires amendments to both the variable interest entity and voting models. The amendments (i) rescind the indefinite deferral of certain aspects of accounting standards relating to consolidations and provide a permanent scope exception for registered money market funds and similar unregistered money market funds, (ii) modify the identification of variable interests (fees paid to a decision maker or service provider), the VIE characteristics for a limited partnership or similar entity and primary beneficiary determination under the VIE model, and (iii) eliminate the presumption within the current voting model that a general partner controls a limited partnership or similar entity. The new guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2015 with early adoption permitted. The amendments may be applied using either a modified retrospective or full retrospective approach. The Company is currently evaluating the effect the guidance will have on its combined financial statements.

3. Recapitalization

On June 9, 2014, wholly owned subsidiaries of NorthStar acquired Cerberus' 89.7% interest in INK Acquisition, LLC and the Affiliated Lessee, acquiring 47 hotels from Old Ink JV. Prior to the recapitalization, the Successor was funded with member contributions of \$193,083. The Successor funded the acquisition with available cash, the issuance of debt of \$840,000 and the assumption of other liabilities of \$2,405. The Successor incurred acquisition costs of \$19,868 during 2014 related to the acquisition of which \$10,503 are based on debt breakage fees. The transaction resulted in a change in control of Old Ink JV; accordingly it has been accounted for as a business combination.

Hotel Purchase Price Allocation

The following table presents the allocation of the purchase price of the assets acquired and the liabilities issued by the Successor, based on the fair value on the date of its acquisition was (in thousands):

Land and improvements	\$ 167,106
Building and improvements	685,645
Acquired intangibles	3,954
Other assets acquired	181,258
Total assets acquired	<u>1,037,963</u>
Accounts payable and accrued expenses assumed	(2,405)
Debt issued	<u>(840,000)</u>
Total liabilities	<u>(842,405)</u>

The value of the assets acquired was primarily based on a sales comparison approach (for land) and a depreciated replacement cost approach (for building and improvements and furniture, fixtures and equipment). The sales comparison approach uses inputs of recent land sales in the respective hotel markets. The depreciated replacement cost approach uses inputs of both direct and indirect replacement costs using a nationally recognized authority on replacement cost information as well as the age, square footage and number of rooms of the respective assets. Operating assets and liabilities are recorded at carrying value because of the liquid nature of the assets and relatively short maturities of the obligations.

4. Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts at a level believed to be adequate to absorb losses and is based on past loss experience, current economic and market conditions and other relevant factors. The allowance for doubtful accounts was \$389 (Successor) and \$400 (Predecessor) as of December 31, 2014 and 2013, respectively.

5. Investment in Hotel Properties

Investment in hotel properties as of December 31, 2014 and 2013 consisted of the following:

	<u>Successor</u> <u>December 31,</u> <u>2014</u>	<u>Predecessor</u> <u>December 31,</u> <u>2013</u>
Land and improvements	167,150	159,854
Building and improvements	688,922	705,120
Furniture, fixtures and equipment	86,983	80,168
Renovations in progress	<u>11,635</u>	<u>4,992</u>
	954,690	950,134
Less accumulated depreciation	<u>(25,055)</u>	<u>(106,692)</u>
Investment in hotel properties, net	<u>929,635</u>	<u>843,442</u>

6. Debt

Debt is comprised of the following at December 31, 2014 and 2013:

	<u>Interest</u> <u>Rate</u>	<u>Monthly</u> <u>Payment</u> <u>(In thousands)</u>	<u>Beginning</u>	<u>Maturity Date</u>	<u>Principal Balance</u>		<u>Property Carrying Value</u>	
					<u>(In Thousands)</u>		<u>(In Thousands)</u>	
					<u>Successor</u> <u>December 31,</u> <u>2014</u>	<u>Predecessor</u> <u>December 31,</u> <u>2013</u>	<u>Successor</u> <u>December 31,</u> <u>2014</u>	<u>Predecessor</u> <u>December 31,</u> <u>2013</u>
Variable rate debt								
JPM Chase Loan-								
Successor(1)	3.55%	\$2,485	6/9/2014	6/9/2016	<u>\$840,000</u>	<u>\$ —</u>	<u>\$918,000</u>	<u>\$ —</u>
JPM Chase Loan-								
Predecessor(2)	4.97%	\$3,935	9/9/2013	9/9/2015	<u>\$ —</u>	<u>\$950,000</u>	<u>\$ —</u>	<u>\$838,333</u>

(1) In connection with the recapitalization, the Successor refinanced the existing debt with a new \$840.0 million, non recourse loan with JP Morgan Chase Bank, National Association, collateralized by the 47 hotels (the "Loan agreement"). The new loan is a five year interest only loan comprised of a two year loan with three, one year extension options. The first extension is not contingent on any factors. Interest only

payments are due monthly. The interest rate is based on one-month LIBOR plus 3.39% (3.55% at December 31, 2014). Monthly payments are based on the number of days outstanding during each period and the loan balance during the period, payments reflected above are based on average weighted rate. In connection with entering into the loan, Chatham could be required under its unconditional guaranty to repay portions of this indebtedness.

- (2) During 2013, Old Ink JV refinanced its existing debt with a new \$950.0 million, non recourse loan with JP Morgan Chase Bank, National Association, collateralized by the 51 hotels in the Old Ink JV portfolio. Loss on early extinguishment of debt due to refinancing was \$8,863 (Predecessor). The loan is a five year interest only loan comprised of a two year loan with three, one year extension options. The first extension was not contingent on any factors. Interest only payments were due monthly. The interest rate was based on one-month LIBOR plus 4.8%. Monthly payments were based on the number of days outstanding during each period and the loan balance during the period, payments reflected above are based on average weighted rate. This loan was repaid in connection with the June 9, 2014 recapitalization transaction described in footnote 1.

The Company estimates the fair value of its variable rate debt by taking into account general market conditions and the estimated credit terms it could obtain for debt with similar maturity and is classified within level 3 of the fair value hierarchy. The Company's only variable rate debt is under its JPM Chase Bank, National Association loans. The estimated fair value of the Successor and Old Ink JV's variable rate debt as of December 31, 2014 and 2013 was \$840,102 (Successor) and \$956,699 (Predecessor), respectively.

As of December 31, 2014, the Successor was in compliance with all of its financial covenants including, but not limited to, the following:

- (1) Chatham Guarantor (as defined in the Loan agreement) shall collectively maintain a Net Worth (as defined in the Loan agreement) of not less than \$225,000 in the aggregate
- (2) Chatham Guarantor shall maintain Unencumbered Liquid Assets (as defined in the Loan agreement) of not less than \$25,000 of which (i) not less than \$10,000 of Unencumbered Liquid Cash Assets (as defined in the Loan agreement) and (ii) not less than \$15,000 in Unencumbered Credit Line Capacity (as defined in the Loan agreement).

Future scheduled principal payments of Successor's debt obligations as of December 31, 2014, for each of the next five calendar years and thereafter is as follows:

	<u>Amount</u>
2015	\$ —
2016	840,000
2017	—
2018	—
2019	—
Thereafter	—
	<u>\$840,000</u>

7. Owners' Equity (Deficit)

The ownership of Successor and Predecessor at December 31, 2014 and 2013 was as follows:

	<u>Successor</u> <u>December 31,</u> <u>2014</u>	<u>Predecessor</u> <u>December 31,</u> <u>2013</u>
Owners' Name		
Platform Member-T LLC	89.72%	— %
CRE—Ink REIT Member LLC	— %	89.72%
Chatham Lodging, LP	<u>10.28%</u>	<u>10.28%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

Under the terms of the Company's operating agreement, available cash from operations (as defined) is to be distributed *pari passu* to the partners through the date of dissolution. In addition, available cash from a capital event (as defined) is to be distributed to the partners subject to specified internal rate of return tiers that could result in disproportionately greater distributions to Chatham upon meeting certain established thresholds.

8. Concentration of Credit Risk

Cash is maintained with high quality financial institutions and is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per financial institution. At times, cash balances may exceed the FDIC insured limits. Due to the highly liquid nature of cash and the use of high quality financial institutions, management believes that it has limited its credit exposure.

9. Commitments and Contingencies

Litigation

The nature of the operations of the hotels exposes the hotels and the Company to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company or its properties.

An affiliate of the Company is currently a defendant, along with IHM, in a class action lawsuit filed in the San Diego County Superior Court. The lawsuit alleges various wage and hour law violations concerning fifteen hotels operated by IHM in the state of California and owned by affiliates of the Company, its Managing Member and/or certain third parties. All parties are defending the case vigorously. As of December 31, 2014, the Company has not recorded a liability as all litigation relates to wage and hour claims prior to the recapitalization event in June of 2014 and as such any ultimate liability is the responsibility of the owners of Old Ink JV, and therefore should not impact the Successor.

Hotel Ground Rent

The Courtyard by Marriott in Ft. Lauderdale, FL hotel is subject to a ground lease with an expiration date of August 1, 2034. Rent is equal to approximately \$9 per month, with minimum rent subject to increase based on increases in the consumer price index.

The following is a schedule of the minimum future obligation payments required under the ground leases:

	<u>Amount</u>
2015	\$ 110
2016	112
2017	113
2018	115
2019	117
Thereafter	<u>1,758</u>
Total	<u>\$2,325</u>

Hotel Management Agreements

As of December 31, 2014, all of the Successor hotels are managed by IHM. The management agreements with IHM have an initial term of five years and may be extended subject to approval by both IHM and the Successor. The IHM management agreement may be terminated, for no termination fee, by giving not less than 30 days prior written notice and upon the assignment of the of lessees interests in the related hotel or upon sale or transfer of such hotel. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels. The IHM management agreements provide for a base management fee of 3% of the managed hotel’s gross revenues. The Successor and Predecessor management agreements with IHM also provide for accounting fees up to one-thousand two hundred dollars per month per hotel as well a revenue management fee of seven hundred and fifty dollars per month per hotel.

Hotel Franchise Agreements

The Affiliate lessees’ have entered into franchise agreements with Marriott International, Inc. (“Marriott”), relating to thirty Residence Inns, three Courtyards by Marriott and one TownePlace Suites. These franchise agreements expire between 2027 and 2034. The Marriott franchise agreements provide for franchise fees ranging from 5% to 5.5% of the hotel’s gross room sales plus marketing fees ranging from 1.5% to 2.5% of the hotel’s gross room sales. The Marriott franchise agreements are terminable by Marriott in the event that the applicable franchisee fails to cure an event of default or, in certain circumstances such as the franchisee’s bankruptcy or insolvency, are terminable by Marriott at will. The Marriott franchise agreements provide that, in the event of a proposed transfer of the hotel, the Company’s lessee’s interest in the agreement or more than a specified amount of the Company’s lessee to a competitor of Marriott, Marriott has the right to purchase or lease the hotel under terms consistent with those contained in the respective offer and may terminate if the Company’s lessee elects to proceed with such a transfer.

The Affiliate lessees’ have entered into franchise agreements with Hampton Inns Franchise LLC (“Hampton Inns”), relating to five Hampton Inns. The franchise agreements expire in 2029. The Hampton Inns franchise agreements provide for a monthly program fee equal to 4% of the hotel’s gross rooms revenue plus royalty fees equal to 6% of the hotel’s gross rooms revenue. Hampton Inns may terminate the franchise agreements in the event that the franchisee fails to cure an event of default or, in certain circumstances such as the franchisee’s bankruptcy or insolvency.

The Affiliate lessees’ have entered into franchise agreements with The Sheraton, LLC (“Sheraton”), relating to the Fort Walton Beach—Sheraton Four Points, Fort Walton Beach, Florida hotel and the Rockville Sheraton, Rockville, Maryland hotel. The franchise agreements have initial terms of 20 years and expire in 2034. Neither of the agreements has a renewal option. The Sheraton franchise agreements provide for royalty fees ranging from 5.50% to 6.0% of gross rooms sales plus royalty fees of 2% of gross food and beverage sales as to one of the Sheratons. The agreements also provide for marketing fees of 1.0% of gross rooms sales. Sheraton may terminate the franchise agreements in the event that the franchisee fails to cure an event of default or, in certain circumstances such as franchisee’s bankruptcy or insolvency.

The Affiliate lessees' have entered into a franchise agreement with Westin Hotel Management, Inc. ("Westin") relating to the Morristown-Westin Governor Morris hotel. The franchise agreement has an initial term of 20 years and expires in 2034. It has no renewal option. The Westin franchise agreement provides for royalty fees of 7% of gross rooms sales plus 3% of gross food and beverage sales. The agreement also provides for marketing fees of 1.32% of gross rooms sales. Westin may terminate the franchise agreement in the event that the franchisee fails to cure an event of default or, in certain circumstances such as franchisee's bankruptcy or insolvency.

The Affiliate lessees' have entered into franchise agreements with Hyatt House Franchising, LLC ("Hyatt House") relating to five Hyatt House hotels. The franchise agreements have an initial term of 20 years and expire in 2034. Each has a renewal option of 10 years. The Hyatt House franchise agreements provide for royalty fees ranging from 3% to 5% of gross rooms revenue plus marketing fees of 3.5% of gross rooms revenue. Hyatt may terminate the franchise agreements in the event that the franchisee fails to cure an event of default or, in certain circumstances such as franchisee's bankruptcy or insolvency.

10. Discontinued Operations

As of December 31, 2014, and 2013 the Successor and Old Ink JV had no hotel property classified as held for sale. As of December 31, 2012, Old Ink JV had four properties held for sale and all four hotels were sold during 2013. During the year ended December 31, 2013, Old Ink JV recognized a net loss on sale of the four hotels for \$2,456. During the year ended December 31, 2012, Old Ink JV recognized a net gain on sale of nine hotels in the amount of \$2,496.

The following table sets forth the components of discontinued operations for the Predecessor years ended December 31, 2013 and 2012:

	<u>Predecessor</u>	
	<u>2013</u>	<u>2012</u>
Hotel operating revenue	\$ 1,854	\$ 17,155
Hotel operating expenses	(1,933)	(13,166)
Amortization of franchise fees	(6)	(40)
Property tax and insurance	(187)	(1,449)
General and administrative	(2)	(10)
Impairment on hotels classified as held for sale	—	(2,894)
Loss from discontinued operations	(274)	(404)
Gain (loss) on sale of assets from discontinued operations	(2,456)	2,496
Net income (loss) from discontinued operations	<u>\$(2,730)</u>	<u>\$ 2,092</u>

11. Related Party Transactions

As of December 31, 2014, all 47 hotels of Successor are managed by IHM. Management, revenue management and accounting fees paid by Old Ink JV to IHM for the Predecessor period January 1, 2014 through June 9, 2014 and for the years ended December 31, 2013 for 2012 was \$4,797 and \$6,347 and \$6,750, respectively. Management, revenue management and accounting fees incurred by Successor for the period June 9, 2014 through December 31, 2014 was \$4,797. At December 31, 2014 and 2013, amounts due to IHM were \$714 (Successor) and \$130 (Predecessor), respectively and are included in Accounts payable and accrued expenses on the combined balance sheets.

12. Subsequent Events

The Company has performed an evaluation of subsequent events since the balance sheet date through April 2, 2015, the date of the issuance of the financial statements.

IHP I Owner JV, LLC and Affiliates

Financial Statements

**As of December 31, 2014 and For the Period November 17, 2014 through December 31, 2014
With Report of Independent Certified Public Accountants**

Report of Independent Certified Public Accounting Firm

To the Partners of
IHP I Owner JV, LLC

We have audited the accompanying combined financial statements of IHP I Owner JV, LLC (a Delaware limited liability company) and Affiliates, which comprise the combined balance sheet as of December 31, 2014, and the related combined statements of operations, owners' equity, and cash flows for the period November 17, 2014 through December 31, 2014, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of IHP I Owner JV, LLC and Affiliates as of December 31, 2014 and the results of their operations and their cash flows for the period November 17, 2014 through December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP
Philadelphia, Pennsylvania
April 2, 2015

IHP I Owner JV, LLC and Affiliates
Combined Balance Sheet
(In thousands)

	<u>December 31,</u> <u>2014</u>
Assets:	
Investment in hotel properties, net	\$ 946,418
Cash and cash equivalents	18,237
Restricted cash	84,281
Hotel receivables (net of allowance for doubtful accounts of \$0)	5,065
Deferred costs, net	15,181
Intangibles, net	14,135
Prepaid expenses and other assets	<u>3,623</u>
Total assets	<u><u>\$1,086,940</u></u>
Liabilities and Owner's Equity:	
Debt	\$ 817,000
Accounts payable and accrued expenses	<u>14,947</u>
Total liabilities	<u>831,947</u>
Commitments and contingencies	
Owners' Equity	
Contributions	278,515
Distributions and accumulated deficit	<u>(23,522)</u>
Total owners' equity	<u>254,993</u>
Total liabilities and owners' equity	<u><u>\$1,086,940</u></u>

The accompanying notes are an integral part of these combined financial statement.

IHP I Owner JV, LLC and Affiliates
Combined Statement of Operations
(In thousands)

	<u>Period from November 17, 2014 through December 31, 2014</u>
Revenue:	
Room	\$ 19,598
Food and beverage	863
Other	500
Total revenue	<u>20,961</u>
Expenses:	
Hotel operating expenses:	
Room	5,160
Food and beverage expense	680
Telephone expense	232
Other hotel operating expense	129
General and administrative	2,384
Franchise and marketing fees	1,281
Advertising and promotions	745
Utilities	931
Repairs and maintenance	1,134
Management fees	1,006
Insurance	72
Total hotel operating expenses	<u>13,754</u>
Depreciation and amortization	3,781
Amortization of intangibles	108
Property taxes and insurance	1,602
General and administrative	895
Hotel property acquisition costs and other charges	<u>18,877</u>
Total operating expenses	<u>39,017</u>
Operating loss	(18,056)
Interest expense, including amortization of deferred fees	<u>(4,580)</u>
Net loss	<u>\$(22,636)</u>

The accompanying notes are an integral part of these combined financial statement.

IHP I Owner JV, LLC and Affiliates
Combined Statement of Owners' Equity
(In thousands)

	Contributions	Distributions and Accumulated Deficit	Total Owners' Equity
Balance, beginning of period, at November 17, 2014	\$ —	\$ —	\$ —
Contributions	278,515	—	278,515
Net loss	—	(22,636)	(22,636)
Distributions	—	(886)	(886)
Balance at December 31, 2014	\$278,515	\$(23,522)	\$254,993

The accompanying notes are an integral part of these combined financial statement.

IHP I Owner JV, LLC and Affiliates
Combined Statement of Cash Flows
(In thousands)

**Period from November 17, 2014
through December 31, 2014**

Cash flow from operating activities:	
Net loss	\$ (22,636)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	3,735
Amortization of deferred franchise fees	46
Amortization of deferred financing costs included in interest expense ...	697
Amortization of intangibles	108
Changes in assets and liabilities:	
Hotel receivables	(5,065)
Prepaid expenses and other assets	(3,623)
Accounts payable and accrued expenses	14,947
Net cash used in operating activities	<u>(11,791)</u>
Cash flows from investing activities:	
Investment in hotel properties, net of cash received	(950,017)
Improvements and additions to hotel properties	(137)
Payments for franchise fees and intangibles	(18,757)
Restricted cash	(84,280)
Net cash used in investing activities	<u>(1,053,191)</u>
Cash flows from financing activities:	
Proceeds from issuance of debt	817,000
Payments of financing costs	(11,410)
Contributions	278,515
Distributions	(886)
Net cash provided by financing activities	<u>1,083,219</u>
Net change in cash and cash equivalents	18,237
Cash and cash equivalents, beginning of period	—
Cash and cash equivalents, end of period	<u>\$ 18,237</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 2,386
Supplemental disclosure of non-cash information:	
Accrued improvements and additions to hotel properties	\$ 2

See Note 3 to the financial statements for a description of assets and liabilities acquired in connection with the acquisition of 48 hotels.

The accompanying notes are an integral part of these combined financial statement.

IHP I Owner JV, LLC and Affiliates
Notes to Financial Statement
(dollars in thousands)

1. Organization

IHP I Owner, LLC, a Delaware limited liability company, was formed on November 17, 2014, as a joint venture between affiliates of NorthStar Realty Finance Corp. (“NorthStar”) and Chatham Lodging, L.P. (“Chatham”) to acquire a portfolio of 48-hotels (hereinafter referred to as the “Inland Acquisition”). IHP I Owner JV, LLC wholly owns various limited liability companies which individually own the properties acquired. The properties are leased to IHP I OPS, LLC and IHP I OPS-II, LLC (hereinafter referred to as the “Affiliate Lessees”). Through wholly-owned subsidiaries, Northstar owns a 90.0% interest and Chatham owns a 10.0% interest in IHP I Owner JV, LLC and Affiliates. Together, the IHP I Owners JV, LLC and the Affiliate Lessees’ are referred to herein as collectively “we,” “us,” or the “Company.”

At December 31, 2014, the Company owned 48 hotels with an aggregate of 6,351 (unaudited) rooms located in 20 states. The hotels operate under the following brands: Residence Inn by Marriott (13 hotels), Hampton Inn by Hilton (7 hotels), Hyatt House (1 hotel), Courtyard by Marriott (16 hotels), Homewood suites by Hilton (8 hotels), Aloft (2 hotels) and Springhill Suites by Marriott (1 hotel). As of December 31, 2014, management of 34 of the hotels is provided pursuant to management agreements with Island Hospitality Management (“IHM”), which is 90%, owned by Jeffrey H. Fisher, the Chairman of the Board and Chief Executive Officer of Chatham Lodging Trust, which is the sole general partner of Chatham. Fourteen of the hotels are managed by Marriott International (“Marriott”).

The affiliated partnerships combined in these financial statements are IHP I Owner JV, LLC and IHP I OPS JV, LLC.

2. Summary of Significant Accounting Policies

Basis of Presentation

The combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated and combined financial statements include all of the accounts of IHP I Owner JV, LLC and its subsidiaries and all of the accounts of the Affiliate Lessees’. Combined financial statements of IHP I Owner JV, LLC and the Affiliate Lessees, which are under common control and common management, have been presented in order to provide a more meaningful presentation of the operations of IHP I Owner JV, LLC. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allocation of the purchase price of hotels, the allowance for doubtful accounts and the fair value of hotels that are held for sale or impaired.

Fair Value of Financial Instruments

FASB guidance on fair value measurements and disclosures defines fair value for GAAP and establishes a framework for measuring fair value as well as a fair value hierarchy based on the quality and nature of inputs used to measure fair value. The term “fair value” in these financial statements is defined in accordance with

GAAP. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

Level 2 Inputs represent other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs are those that are unobservable.

The carrying value of the Company's cash, accounts receivables, accounts payable and accrued expenses approximate fair value because of the relatively short maturities of these instruments. The Company is not required to carry any other assets or liabilities at fair value on a recurring basis other than its interest rate caps. The interest rate caps are valued using Level 3 inputs and are valued at \$173 as of December 31, 2014.

When the Company classifies an asset as held for sale, the Company assesses whether the asset's carrying value is greater than fair value less selling costs. If so, the asset is written down to fair value less selling costs on a nonrecurring basis. The fair value determinations are based on Level 3 inputs as they are generally based on broker quotes or other comparable sales information.

The Company also disclosed the fair value of its variable rate debt based estimates of current terms the Company would expect to receive in under the current general market conditions, as compared to the terms and conditions of the Company's debt. The fair value determination is based on level 3 inputs as they are based on the fair value hierarchy.

Investment in Hotel Properties

The Company allocates the purchase prices of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, identifiable intangible assets and assumed liabilities. In making estimates of fair value for purposes of allocating the purchase price, the Company utilizes a number of sources of information that are obtained in connection with the acquisition of a hotel property, including valuations performed by independent third parties and information obtained about each hotel property resulting from pre-acquisition due diligence. Hotel property acquisition costs are expensed in the period incurred.

The Company's investment in hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for land improvements, 15 years for building improvements and three to ten years for furniture, fixtures and equipment. Renovations and replacements at the hotel properties that improve or extend the life of the assets are capitalized and depreciated over their useful lives, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the Company's accounts and any resulting gain or loss is recognized in the combined statements of operations.

The Company periodically reviews its hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows, without interest charges, from operations and the net proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount, an adjustment to reduce the carrying amount to the related hotel

property's estimated fair market value is recorded and an impairment loss recognized. For the period November 17, 2014 through December 31, 2014, no impairment charges on hotels held for use were recorded.

The Company will consider a hotel property as held for sale when either the Company determines it will be actively selling the hotel and a binding agreement to purchase the property has been signed under which the buyer has committed a significant amount of nonrefundable cash, no significant financing contingencies exist which could cause the transaction not to be completed in a timely manner and the sale is expected to occur within one year. If these criteria are met, depreciation and amortization of the hotel property ceases and the carrying value of each hotel is recorded at the lower of its carrying value or its estimated fair value less estimated costs to sell. The Company classifies together with the related operating results, as discontinued operations in the combined statements of operations and classifies the assets and related liabilities as held for sale in the combined balance sheets for all periods presented. As of December 31, 2014, the Company had no hotel properties held for sale.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short term liquid investments with an original maturity when purchased of three months or less. Cash balances in individual banks may exceed federally insurable limits.

Restricted Cash

Restricted cash represents escrows for reserves required pursuant to the Company's loans or hotel management agreements. Included in restricted cash on the accompanying combined balance sheet at December 31, 2014, are renovation, property tax and insurance escrows of \$84,281. The hotel mortgage loan agreements require the Company to fund 4% of gross hotel revenues on a monthly basis for furnishings, fixtures and equipment and general repair maintenance reserves ("Replacement Reserve"), in addition to property tax and insurance reserves, into an escrow account held by the lender.

Hotel Receivables

Hotel receivables consist of amounts owed by guests staying at the Company's hotels at year end and amounts due from business and group customers. An allowance for doubtful accounts is provided and maintained at a level believed to be adequate to absorb estimated losses. At December 31, 2014, no allowance for doubtful accounts was considered necessary by management.

Deferred Costs

Deferred costs consisted of the following at December 31, 2014:

	December 31, 2014
Loan costs	\$11,411
Franchise fees	4,513
	<u>15,924</u>
Less accumulated amortization	<u>(743)</u>
Deferred costs, net	<u>\$15,181</u>

Loan costs are recorded at cost and amortized over a straight-line basis, which approximates the effective interest rate method, over the term of the loan. Franchise fees are recorded at cost and amortized over a straight-line basis over the term of the franchise agreements. For the period ended December 31, 2014, amortization expense related to franchise fees of \$46 was included in depreciation and amortization in the combined statement of operations. Amortization expense of \$697 related to loan costs for the period ended December 31, 2014 is included in interest expense in the combined statement of operations.

Intangibles

Intangibles, consisting of identifiable intangibles acquired in the Inland Acquisition are as follows:

	<u>December 31,</u> <u>2014</u>
Intangible assets	\$14,243
Less accumulated amortization	<u>(108)</u>
Intangibles, net	<u>\$14,135</u>

Based on the third party valuations, the Company ascribed \$14,243 of value related to the difference in Lieu of Taxes (Pilot) and the real estate taxes over the life of the lease agreements associated with the following hotels:

IHP Elizabeth I (NJ) Owner, LLC — \$6,191
IHP Elizabeth II (NJ) Owner, LLC — \$8,052

The intangible assets are amortized over 194 months, which corresponds to the term of the land leases as follows:

	<u>Amount</u>
2015	\$ 879
2016	879
2017	879
2018	879
2019	879
Thereafter	<u>9,740</u>
Total	<u>\$14,135</u>

Prepaid Expenses and Other Assets

The Company's prepaid expenses and other assets consist of prepaid insurance, deposits, hotel supplies inventory and the fair value of the company's interest rate caps.

Accounting for derivative instruments

The Company records its derivative instruments on the balance sheet at their estimate fair value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether a derivative is designated as part of a hedging relationship and, if it is, depending on the type of hedging relationship. The Company's interest rate caps are not designated as a hedge but to eliminate the incremental cost to the Company if one-month LIBOR were to exceed 2.5% during the period ending December 31, 2014. Accordingly, the interest rate caps are recorded on the balance sheet at estimated fair value with realized and unrealized changes in the fair value reported in the combined statement of operations.

Revenue Recognition

Revenue from hotel operations is recognized when rooms are occupied and when services are provided. Revenue consists of amounts derived from hotel operations, including sales from room, meeting room, restaurants, gift shop, in-room movie and other ancillary amenities. Sales, use, occupancy, and similar taxes are collected and presented on a net basis (excluded from revenue) in the accompanying combined statement of operations.

Income Taxes

The Company is a limited liability company (“LLC”) and has elected to be taxed as a partnership. Therefore, the Company is solely a pass-through entity and does not have any federal or state income tax liabilities. Accordingly, the Company does not record a provision for income taxes because the members report their share of the Company’s income or loss on their income tax returns.

The Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The recognition of any tax benefit is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. De-recognition of a tax benefit previously recognized results in the Company recording a tax liability that reduces ending members’ capital. Based on its analysis, the Company has determined that it has not recognized any tax benefit nor incurred any liability for unrecognized tax benefits as of December 31, 2014. However, the Company’s conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analyses of and changes to tax laws, regulations and interpretations thereof.

The Company recognizes interest and penalties related to unrecognized tax benefits in interest expense and other expenses, respectively. No interest expense or penalties have been recognized as of and for the period ended December 31, 2014.

The Company files income tax returns in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states. The Company is subject to income tax examinations by major taxing authorities for all previous income tax returns filed.

Recently Issued Accounting Standards

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s operations and financial results or a business activity classified as held for sale upon acquisition should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014. Early adoption is only permitted for disposals that have not been reported in financial statements previously issued. We adopted this accounting standard update effective November 17, 2014 and the implementation of the amended guidance did not have a material impact on the Company’s consolidated financial position or results of operations, but do expect these amendments to impact the Company’s determination of which future property disposals qualify as discontinued operations as well as requiring additional disclosures about discontinued operations.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, which requires management to perform interim and annual assessments of an entity’s ability to continue within one year of the date the financial statements are issued and provides guidance

on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This guidance is effective for the Company on January 1, 2017 and will not have an impact on the Company's financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02 Amendments to the Consolidation Analysis, which requires amendments to both the variable interest entity and voting models. The amendments (i) rescind the indefinite deferral of certain aspects of accounting standards relating to consolidations and provide a permanent scope exception for registered money market funds and similar unregistered money market funds, (ii) modify the identification of variable interests (fees paid to a decision maker or service provider), the VIE characteristics for a limited partnership or similar entity and primary beneficiary determination under the VIE model, and (iii) eliminate the presumption within the current voting model that a general partner controls a limited partnership or similar entity. The new guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2015 with early adoption permitted. The amendments may be applied using either a modified retrospective or full retrospective approach. The Company is currently evaluating the effect the guidance will have on its combined financial statements.

3. Acquisition of Hotel Properties

On November 17, 2014, the Company acquired 48 hotels. Prior to the acquisition, the Company was funded with member contributions of \$278,515. The Company funded the acquisition with available cash, the issuance of debt of \$817,000 and the assumption of other liabilities of \$2,712. The Company incurred acquisition costs of \$18,877 during the period November 17, 2014 through December 31, 2014 related to the Inland Acquisition.

Hotel Purchase Price Allocation

The following table presents the allocation of the purchase price of the assets acquired and the liabilities issued, based on the fair value on the date of its acquisition was (in thousands):

Land and improvements	\$ 107,412
Building and improvements	796,823
Acquired intangibles	18,756
Other assets acquired	<u>153,407</u>
Total assets acquired	<u>\$1,076,398</u>
Accounts payable and accrued expenses assumed	(2,712)
Debt issued	<u>(817,000)</u>
Total liabilities	<u>\$ (819,712)</u>

The value of the assets acquired was primarily based on a sales comparison approach (for land) and a depreciated replacement cost approach (for building and improvements and furniture, fixtures and equipment). The sales comparison approach uses inputs of recent land sales in the respective hotel markets. The depreciated replacement cost approach uses inputs of both direct and indirect replacement costs using a nationally recognized authority on replacement cost information as well as the age, square footage and number of rooms of the respective assets. Operating assets and liabilities are recorded at carrying value because of the liquid nature of the assets and relatively short maturities of the obligations.

4. Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts at a level believed to be adequate to absorb losses and is based on past loss experience, current economic and market conditions and other relevant factors. At December 31, 2014, no allowance for doubtful accounts was considered necessary by management.

5. Investment in Hotel Properties

Investment in hotel properties as of December 31, 2014 consisted of the following:

	<u>December 31, 2014</u>
Land and improvements	\$107,412
Building and improvements	796,825
Furniture, Fixtures and equipment	45,781
Renovations in progress	<u>135</u>
	950,153
Less accumulated depreciation	<u>(3,735)</u>
Investment in hotel properties, net	<u>\$946,418</u>

6. Debt

Debt is comprised of the following at December 31, 2014:

<u>Variable rate debt</u>	<u>Interest Rate</u> 2014	<u>Monthly Payment</u> (In thousands) Amount	<u>Beginning</u>	<u>Maturity Date</u>	<u>Principal Balance</u> (In Thousands) December 31, 2014	<u>Property Carrying Value</u> (In Thousands) December 31, 2014
Bank of America Loan ⁽¹⁾	3.76%	\$2,561	11/17/2014	12/9/2016	\$817,000	\$946,283

(1) During the period November 17, 2014 through December 31, 2014, the Company received a \$817,000, non-recourse loan with Bank of America, collateralized by the 48 hotels (the "Loan agreement"). The loan is a five year, interest only loan comprised of a two year loan with three, one year extension options. The first extension is not contingent on any factors. Interest only payments are due monthly. The interest rate is based on one month LIBOR plus 3.6% (3.76% at December 31, 2014). Monthly payments are based on the number of days and loan balance during the period. Payments are based on the average weighted rate. In connection with entering into the loan, Chatham could be required under its unconditional guaranty to repay portions of this indebtedness.

The company estimates the fair value of its variable rate debt by taking into account general market conditions and the estimated credit terms it could obtain for debt with similar maturity and is classified within level 3 of the fair value hierarchy. The estimated fair value of the Company's variable rate debt as of December 31, 2014 was \$816,597.

As of December 31, 2014, the Company was in compliance with all of its financial covenants including but not limited to the following:

- (1) Chatham shall collectively maintain a Net Worth (as defined in the Loan agreement) of not less than \$260,000 in the aggregate
- (2) Chatham shall maintain Unencumbered Liquid Assets (as defined in the Loan agreement) of not less than \$28,000 of which not less than \$10,000 of Unencumbered Liquid Cash Assets (as defined in the Loan agreement).

Future scheduled principal payments of debt obligations as of December 31, 2014, and for each of the next five calendar years and thereafter is as follows:

	<u>Amount</u>
2015	\$ —
2016	817,000
2017	—
2018	—
2019	—
Thereafter	—
	<u>\$817,000</u>

7. Owners' Equity

The ownership of the Company at December 31, 2014 was as follows:

<u>Owners' Name</u>	<u>December 31, 2014</u>
Platform Member — II-T LLC	90%
Chatham IHP, LLC	10%
Total	<u>100%</u>

8. Concentration of Credit Risk

Cash is maintained with high quality financial institutions and is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per financial institution. At times, cash balances may exceed the FDIC insured limits. Due to the highly liquid nature of cash and the use of high quality financial institutions, management believes that it has limited its credit exposure.

9. Commitments and Contingencies

Litigation

The nature of the operations of the hotels exposes the hotels and the Company to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company or its properties.

Hotel Ground Rent

The subsidiary owners of the Courtyard by Marriott Elizabeth, NJ and the Residence Inn Elizabeth, NJ are lessees under a ground lease, as amended. Under the ground lease, no lease payments are due and the lease expires on the earlier of the day on which any Payment in Lieu of Tax ("PILOT") Bonds are repaid in their entirety or June 4, 2048. At lease expiration, the lessee may acquire the land for \$1. The subsidiary owners are also party to Allocation Agreements which require the lessee to make quarterly PILOT payments through the end of the PILOT program in February, 2031. The payments required under the Allocation Agreements are expensed as incurred. PILOT payments are equal to approximately \$352 and \$383 per year.

The following is a schedule of the PILOT payments required under the Allocation Agreements:

	<u>Amount</u>
2015	\$ 735
2016	735
2017	735
2108	737
2109	737
Thereafter	<u>9,684</u>
Total	<u>\$13,363</u>

Hotel Management Agreements

As of December 31, 2014, 34 of the 48 hotels are managed by IHM. The management agreements with IHM have an initial term of five years and may be extended subject to approval by both IHM and the Company. The IHM management agreement may be terminated, for no termination fee, by giving not less than 30 days prior written notice and upon the assignment of the of lessees interests in the related hotel or upon sale or transfer of such hotel. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels. The IHM management agreements provide for a base management fee of 3% for the managed hotel’s gross revenues. Management agreements with IHM also provide for accounting fees up to one-thousand two hundred dollars per month per hotel as well a revenue management fee of seven hundred and fifty dollars per month per hotel. Marriott manages 14 of the hotels under a management and franchise agreement. These agreements expire in 2033. The agreements may be renewed on the same terms and conditions for one successive period of ten years. The Marriott agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels. The combined management and franchise fee is 7% of gross revenue plus an incentive management fee equal to 25% of available cash in any year, as defined in the agreements.

Hotel Franchise Agreements

The Affiliate Lessees’ have entered into franchise agreements with Marriott International, Inc. (“Marriott”), relating to six Residence Inn hotels, ten Courtyards by Marriott. These franchise agreements expire between 2021 and 2030. The Marriott franchise agreements provide for franchise fees ranging from 5.5% to 6% of the hotel’s gross room sales plus marketing fees ranging from 2% to 2.5% of the hotel’s gross room sales. The Marriott franchise agreements are terminable by Marriott in the event that the applicable franchisee fails to cure an event of default or, in certain circumstances such as the franchisee’s bankruptcy or insolvency, are terminable by Marriott at will. The Marriott franchise agreements provide that, in the event of a proposed transfer of the hotel, the Company’s Lessee’s interest in the agreement or more than a specified amount of the Company’s Lessee to a competitor of Marriott, Marriott has the right to purchase or lease the hotel under terms consistent with those contained in the respective offer and may terminate if the Company’s Lessee elects to proceed with such a transfer.

The Affiliate Lessees’ have entered into franchise agreements with Hampton Inns Franchise LLC (“Hampton Inn”), relating to seven Hampton Inn hotels. The franchise agreements expire in 2029. The Hampton Inn franchise agreements provide for a monthly program fee equal to 4% of the hotel’s gross rooms revenue plus a royalty fee equal to 6% of the hotel’s gross rooms revenue. Hampton Inns may terminate the franchise agreements in the event that the franchisee fails to cure an event of default or, in certain circumstances such as the franchisee’s bankruptcy or insolvency.

The Affiliate Lessees’ have entered into franchise agreements with Homewood Suites Franchise LLC (“Homewood Suites”), relating to eight Homewood Suites hotels. The franchise agreements expire in 2029. The Homewood Suites franchise agreements provide for a monthly program fee ranging from 3.5% to 4.3% of the

hotel's gross rooms revenue plus royalty fees equal to 5.5% of the hotel's gross rooms revenue. Homewood Suites may terminate the franchise agreements in the event that the franchisee fails to cure an event of default or, in certain circumstances such as the franchisee's bankruptcy or insolvency.

The Affiliate Lessees' have entered into franchise agreements with The Sheraton, LLC ("Sheraton"), relating to the Birmingham Aloft and Chapel Hill Aloft hotels. The franchise agreements have initial terms of 20 years and expire in 2034. Neither of the agreements has a renewal option. The Sheraton franchise agreements provide for royalty fees of 5% of gross rooms sales. Sheraton may terminate the franchise agreements in the event that the franchisee fails to cure an event of default or, in certain circumstances such as franchisee's bankruptcy or insolvency.

The Affiliate Lessees' have entered into franchise agreements with Hyatt House Franchising, LLC ("Hyatt House") relating to one Hyatt House hotel. The franchise agreements expire in 2032. The Hyatt House franchise agreements provide for royalty fees of 5% of gross rooms revenue plus marketing fees ranging from 3.5% to 4% of gross rooms revenue. Hyatt may terminate the franchise agreements in the event that the franchisee fails to cure an event of default or, in certain circumstances such as franchisee's bankruptcy or insolvency.

10. Related Party Transactions

As of December 31, 2014, 34 hotels are managed by IHM. Management, revenue management and accounting fees incurred by the Company for the period November 17, 2014 through December 31, 2014 was \$470 and \$536, respectively. At December 31, 2014, the amount due to IHM was \$229.

11. Subsequent Events

The Company has performed an evaluation of subsequent events since the balance sheet date through April 2, 2015, the date of the issuance of the financial statements.

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Corporate Information

MANAGEMENT

Jeffrey H. Fisher

*Chairman of the Board,
Chief Executive Officer
and President*

Dennis Craven

*Executive Vice President and
Chief Financial Officer*

Peter Willis

*Executive Vice President
and Chief Investment Officer*

Eric Kentoff

*Vice President, General Counsel
and Secretary*

INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTANTS

PricewaterhouseCoopers LLP
401 East Las Olas Boulevard
Suite 1800
Fort Lauderdale, FL 33301

BOARD OF TRUSTEES

Miles Berger

*Chairman and
Chief Executive Officer
Berger Management
Services LLC*

Thomas J. Crocker

*Chief Executive Officer
Crocker Partners, LLC*

Jack P. DeBoer

*Chairman
Consolidated Holdings, Inc.*

Glen R. Gilbert

Private Investor

C. Gerald Goldsmith

Private Investor

Robert Perlmutter

*Executive Vice President
The Macerich Company*

Rolf E. Ruhfus

*Chairman and
Chief Executive Officer
LodgeWorks Corporation*

Joel F. Zemans

Private Investor

SHAREHOLDER INFORMATION

Investor Relations:
Chatham Lodging Trust
50 Coconut Row
Suite 211
Palm Beach, FL 33480
Tel: 561.802.4477
Fax: 561.835.4125

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders
Will Be Held
On Thursday, May 21, 2015
at 9am EST

The Brazilian Court Hotel
301 Australian Avenue
Palm Beach, FL 33480

TRANSFER AGENT, REGISTRAR

Wells Fargo Bank, N.A.
Wells Fargo Shareowner Services
161 North Concord Exchange
South St. Paul, Minnesota 55075



CHATHAM LODGING TRUST



CHATHAM LODGING TRUST



CORPORATE ADDRESS

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