



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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2010

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

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**CHATHAM LODGING TRUST**

(Exact Name of Registrant as Specified in Its Charter)

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Maryland  
(State or Other Jurisdiction of Incorporation or Organization)

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

50 Coconut Row, Suite 216  
Palm Beach, Florida  
(Address of Principal Executive Offices)

33480  
(Zip Code)

(561) 802-4477  
(Registrant's Telephone Number, Including Area Code)

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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

\* The registrant became subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, on April 15, 2010.

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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  Smaller reporting company   
(do not check if a 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.

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Class
Common Shares of Beneficial Interest (\$0.01 par value per share)

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**Outstanding at August 13, 2010**

9,201,550

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## TABLE OF CONTENTS

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<a href="#"><u>Item 1. Financial Statements.</u></a>	3
<a href="#"><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u></a>	17
<a href="#"><u>Item 3. Quantitative and Qualitative Disclosures about Market Risk.</u></a>	24
<a href="#"><u>Item 4T. Controls and Procedures.</u></a>	24
<b><u>PART II. OTHER INFORMATION</u></b>	
<a href="#"><u>Item 1. Legal Proceedings.</u></a>	25
<a href="#"><u>Item 1A. Risk Factors.</u></a>	25
<a href="#"><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u></a>	25
<a href="#"><u>Item 3. Defaults Upon Senior Securities.</u></a>	26
<a href="#"><u>Item 4. Submission of Matters to a Vote of Security Holders.</u></a>	26
<a href="#"><u>Item 5. Other Information.</u></a>	26
<a href="#"><u>Item 6. Exhibits.</u></a>	26
<a href="#"><u>EX-10.1</u></a>	
<a href="#"><u>EX-10.2</u></a>	
<a href="#"><u>EX-10.3</u></a>	
<a href="#"><u>EX-10.4</u></a>	
<a href="#"><u>EX-31.1</u></a>	
<a href="#"><u>EX-31.2</u></a>	
<a href="#"><u>EX-32.1</u></a>	

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

	June 30, 2010 (unaudited)	December 31, 2009
<b>Assets:</b>		
Investment in hotel properties, net	\$ 73,132	\$ —
Cash and cash equivalents	98,700	24
Restricted cash	2,500	—
Hotel receivables (net of allowance for doubtful accounts of approximately \$4 and \$0, respectively)	699	—
Deferred costs, net	567	—
Prepaid expenses and other assets	157	—
Total assets	<u>\$ 175,755</u>	<u>\$ 24</u>
<b>Liabilities and Equity:</b>		
Accounts payable and accrued expenses	\$ 2,086	\$ 14
Accrued underwriter fees	5,175	—
Advance deposits	59	—
Total liabilities	<u>7,320</u>	<u>14</u>
Commitments and contingencies		
<b>Equity:</b>		
Shareholders' Equity:		
Preferred shares, \$0.01 par value, 100,000,000 shares authorized and unissued at June 30, 2010	—	—
Common shares, \$0.01 par value, 500,000,000 shares authorized; 9,201,550 and 1,000 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	92	—
Additional paid-in capital	170,240	10
Unearned compensation	(1,404)	—
Retained deficit	(642)	—
Total shareholders' equity	<u>168,286</u>	<u>10</u>
Noncontrolling Interests:		
Noncontrolling interest in Operating Partnership	149	—
Total equity	<u>168,435</u>	<u>10</u>
Total liabilities and equity	<u>\$ 175,755</u>	<u>\$ 24</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)*  
*(unaudited)*

	<u>For the three months ended</u> <u>June 30,</u> <u>2010</u>	<u>For the six months ended</u> <u>June 30,</u> <u>2010</u>
<b>Revenues:</b>		
Hotel operating revenues:		
Room	\$ 4,544	\$ 4,544
Other operating	114	114
Total hotel operating revenues	<u>4,658</u>	<u>4,658</u>
Total revenues	<u>4,658</u>	<u>4,658</u>
<b>Expenses:</b>		
Hotel operating expenses:		
Room	1,070	1,070
Other operating	1,595	1,595
Total hotel operating expenses	<u>2,665</u>	<u>2,665</u>
Depreciation and amortization	402	402
Real estate and personal property taxes	247	247
General and administrative	972	972
Acquisition transaction costs	1,005	1,005
Total operating expenses	<u>5,291</u>	<u>5,291</u>
Operating loss	<u>(633)</u>	<u>(633)</u>
Interest income	38	38
Loss before income tax expense	<u>(595)</u>	<u>(595)</u>
Income tax expense	(47)	(47)
Net loss attributable to common shareholders	<u>\$ (642)</u>	<u>\$ (642)</u>
<b>Earnings per Common Share — Basic:</b>		
Net loss attributable to common shareholders	<u>\$ (0.09)</u>	<u>\$ (0.18)</u>
<b>Earnings per Common Share — Diluted:</b>		
Net loss attributable to common shareholders	<u>\$ (0.09)</u>	<u>\$ (0.18)</u>
<b>Weighted average number of common shares outstanding:</b>		
Basic	7,119,725	3,580,028
Diluted	7,119,725	3,580,028

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

**CHATHAM LODGING TRUST**  
**Consolidated Statements of Equity**  
*(In thousands, except share data)*  
*(unaudited)*

	Common Shares		Additional Paid-In Capital	Unearned Compensation	Retained Deficit	Total Shareholders' Equity	Noncontrolling Interest in Operating Partnership	Total Equity
	Shares	Amount						
Balance, December 31, 2009	1,000	\$ —	\$ 10	\$ —	\$ —	\$ 10	\$ —	\$ 10
Issuance of shares, net of offering costs of \$13,646	9,125,000	91	168,762	—	—	168,853	—	168,853
Repurchase of common shares	(1,000)	—	(10)	—	—	(10)	—	(10)
Issuance of restricted shares	76,550	1	1,478	(1,479)	—	—	—	—
Amortization of share based compensation	—	—	—	75	—	75	149	224
Net loss	—	—	—	—	(642)	(642)	—	(642)
Balance, June 30, 2010	<u>9,201,550</u>	<u>\$ 92</u>	<u>\$ 170,240</u>	<u>\$ (1,404)</u>	<u>\$ (642)</u>	<u>\$ 168,286</u>	<u>\$ 149</u>	<u>\$ 168,435</u>

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

**CHATHAM LODGING TRUST**  
**Consolidated Statement of Cash Flows**  
*(In thousands)*  
*(unaudited)*

	<b>For the six months ended June 30, 2010</b>
<b>Cash flows from operating activities:</b>	
Net Loss	\$ (642)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	397
Amortization of deferred franchise costs	5
Share based compensation	224
Changes in assets and liabilities:	
Hotel receivables	(699)
Deferred costs	(572)
Prepaid expenses and other assets	(157)
Accounts payable and accrued expenses	2,047
Advance deposits	59
Net cash provided by operating activities	<u>662</u>
<b>Cash flows from investing activities:</b>	
Improvements and additions to hotel properties	(15)
Acquisition of hotel properties	(73,514)
Restricted cash	(2,500)
Net cash used in investing activities	<u>(76,029)</u>
<b>Cash flows from financing activities:</b>	
Proceeds from issuance of common shares	182,489
Payment of common offering costs	(8,446)
Net cash provided by financing activities	<u>174,043</u>
Net change in cash and cash equivalents	98,676
Cash and cash equivalents, beginning of period	<u>24</u>
Cash and cash equivalents, end of period	<u>\$ 98,700</u>

Supplemental disclosure of non-cash financing information:

The company has accrued underwriter fees and offering costs of \$5,200.

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

**CHATHAM LODGING TRUST**  
**Notes to the Consolidated Financial Statements**  
*(unaudited)*

**1. Organization**

Chatham Lodging Trust (the “Company”) was formed as a Maryland real estate investment trust (“REIT”) on October 26, 2009 and intends to elect to qualify as a REIT for U.S. Federal Income Tax purposes beginning with its short taxable year ending December 31, 2010. The Company is internally-managed and was organized to invest primarily in premium-branded upscale extended-stay and select-service hotels. The Company formed Chatham Lodging, L.P. (the “Operating Partnership”) on November 18, 2009. The Company formed its taxable REIT subsidiary, Chatham TRS Holding, Inc. (the “TRS”) on November 19, 2009. The TRS is wholly owned by the Operating Partnership.

The Company completed its initial public offering (the “IPO”) on April 21, 2010. The IPO resulted in the sale of 8,625,000 common shares at a \$20.00 price per share, generating \$172.5 million in gross proceeds. Net proceeds, after underwriters’ discounts and commissions and other offering costs paid or payable to third parties as of June 30, 2010, were approximately \$158.9 million. Concurrently with the closing of the IPO, in a separate private placement pursuant to Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), the Company sold 500,000 of its common shares to Jeffrey H. Fisher, the Company’s Chairman, President and Chief Executive Officer, at the public offering price of \$20.00 per share, for proceeds to the Company of \$10 million.

As of June 30, 2010, the Company owned 6 hotels with an aggregate of 813 rooms located in 6 states. Each hotel is leased to a wholly-owned subsidiary of the TRS 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 TRS leases expire on June 22, 2015. Lease revenue from the TRS and its wholly-owned subsidiaries is eliminated in consolidation. A third-party hotel operator manages each hotel under a hotel management agreement.

The Company had no operations prior to the consummation of the IPO. Following the closing of the IPO, the Company contributed the net proceeds from the IPO and the concurrent private placement to the Operating Partnership in exchange for partnership interests in the Operating Partnership. Substantially all of the Company’s assets are held by and all of its operations are conducted through the Operating Partnership. The Company is the sole general partner of the Operating Partnership and currently owns 100% of the units of the limited partnership interest in the Operating Partnership at June 30, 2010. As discussed in Note 7 — Equity Incentive Plan, certain of the Company’s executive officers hold unvested long-term incentive plan units in the Operating Partnership, which are presented as noncontrolling interests on the accompanying consolidated balance sheet.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited interim 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”) applicable to interim financial information. These unaudited 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 statement of cash flows for the periods presented. Interim results are not necessarily indicative of full year performance due to seasonal and other factors.

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. Amounts included in the unaudited consolidated balance sheet as of December 31, 2009 have been derived from the audited consolidated balance sheet as of that date. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated balance sheet and notes thereto as of December 31, 2009 included in Amendment No. 7 to Form S-11, which was filed with the SEC on April 5, 2010.



## Table of Contents

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of 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.

### *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, 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 investments in hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, 40 years for buildings, 15 years for building improvements, seven years for land improvements and three 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. The Company does not believe that there currently are any facts or circumstances indicating impairment in the carrying value of any of its hotel properties.

The Company will consider a hotel property as held for sale when a binding agreement to purchase the property has been signed under which the buyer has committed significant 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 will cease and an impairment loss if any will be recognized if the fair value of the hotel property, less the costs to sell, is lower than the carrying amount of the hotel property. The Company will classify the loss, together with the related operating results, as discontinued operations in the consolidated statements of operations and classify the assets and related liabilities as held for sale in the consolidated balance sheets. As of June 30, 2010, the Company had no hotel properties held for sale.

### *Cash and Cash Equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

## Table of Contents

### *Restricted Cash*

Restricted cash represents purchase price deposits held in escrow for potential hotel acquisitions currently under contract.

### *Hotel Receivables*

Accounts receivable consists of amounts owed by guests staying at our hotels at quarter 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 probable receivable losses.

### *Deferred Costs*

Deferred costs consist of franchise agreement fees for the Company's hotels. These fees are recorded at cost and amortized over a straight-line basis over the 15-year term of the franchise agreements. Amortization expense was \$5 thousand and \$5 thousand for the periods presented.

### *Prepaid Expenses and Other Assets*

The Company's prepaid expenses and other assets consist of prepaid insurance and deposits.

### *Revenue Recognition*

Revenues from hotel operations are recognized when rooms are occupied and when services are provided. Revenues consist 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*

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 statements of operations. The Company will pay dividends on nonvested restricted shares.

### *Earnings Per Share*

Basic earnings per share ("EPS") is computed by dividing the 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. Because the Company reported a net loss for the period, no allocation was made to the unvested restricted shares or the long-term incentive plan units.

### *Income Taxes*

The Company is currently subject to corporate federal and state income taxes. Prior to April 21, 2010, the Company had no operating results subject to taxation.

## Table of Contents

The Company intends to elect to be taxed as a REIT for federal income tax purposes under Sections 856 through 860 of the Internal Revenue Code. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company's 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 U.S. GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its shareholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its 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 Internal Revenue Service grants the Company relief under certain statutory provisions. Such an event could materially adversely affect the Company's net income and net cash available for distribution to shareholders. However, the Company intends to organize and operate in such a manner as to qualify for treatment as a REIT.

The Company leases its hotels to lessee subsidiaries of the TRS. The 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.

### *Organizational and Offering Costs*

The Company expenses organizational costs as incurred and offering costs, which include selling commissions, are recorded as a reduction in additional paid-in capital in shareholders' equity.

### *Recently Issued Accounting Standards*

In June 2009, the Financial Accounting Standards Board issued amended guidance related to the consolidation of variable-interest entities, which requires enterprises to qualitatively assess the determination of the primary beneficiary of a variable interest entity ("VIE") based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The amendments change the consideration of kick-out rights in determining if an entity is a VIE which may cause certain additional entities to now be considered VIEs. Additionally, they require an ongoing reconsideration of the primary beneficiary and provide a framework for the events that trigger a reassessment of whether an entity is a VIE. This guidance is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company has appropriately consolidated all of the results of operations of the six owned hotels at June 30, 2010.

## **3. Acquisition of Hotel Properties**

### *Acquisition of Hotel Properties*

On April 23, 2010, wholly owned subsidiaries of the Company completed the acquisition of six hotel properties (the "Initial Acquisition Hotels") from wholly owned subsidiaries of RLJ Development, LLC for an aggregate purchase price of \$73.5 million, plus customary pro-rated amounts and closing costs. Each of the Initial Acquisition Hotels operates under the Homewood Suites by Hilton® brand. The Initial Acquisition Hotels contain an aggregate of 813 suites and are located in the major metropolitan statistical areas of Boston, Massachusetts; Minneapolis, Minnesota; Nashville, Tennessee; Dallas, Texas; Hartford, Connecticut and Orlando, Florida. The Company acquired the Initial Acquisition Hotels using a portion of the IPO proceeds.

### *Initial Acquisition Hotels Management Agreements*

The Initial Acquisition Hotels are managed by Homewood Suites Management LLC (the "IAH Manager"), a subsidiary of Hilton Worldwide Inc. ("Hilton"). A lessee subsidiary of the TRS assumed each of the existing hotel management agreements (collectively, the "Hotel Management Agreements") for the Initial Acquisition Hotels. Each Hotel Management Agreement previously became effective on December 20, 2000, has an initial term of 15 years and is renewable for an additional five-year period at the IAH Manager's option by written notice to the Company no later than 120 days prior to the expiration of the initial term.

## [Table of Contents](#)

Under the Hotel Management Agreements, the IAH Manager receives a base management fee equal to 2% of the hotel's gross room revenue and, if certain financial thresholds are met or exceeded, an incentive management fee equal to 10% of the hotel's net operating income, less fixed costs, base management fees, agreed-upon return on the owner's original investment and debt service payments. The base management fee expense for the three and six months ended June 30, 2010 was \$93 thousand. There was no incentive management fee expense for these periods.

Subject to certain limitations, the Hotel Management Agreements may be terminated as follows: (1) upon casualty or condemnation of the hotel or the occurrence of certain events of default that occur and continue beyond any applicable grace period, upon notice to the defaulting party; (2) by the Company, without payment of any termination fee to the IAH Manager, as a result of the failure of the hotel to meet certain market and financial performance thresholds over a period of two consecutive years; (3) by the IAH Manager, upon a change of control, if the new owner does not receive a Homewood Suites by Hilton® license agreement for the operation of the hotel; or (4) by the Company, upon a change of control, with payment of a termination fee to the IAH Manager, or without payment of a termination fee where the new owner assumes the existing management agreement and obtains a Homewood Suites franchise agreement for the operation of the hotel.

Following the assumption of the Hotel Management Agreements, the Hotel Management Agreements were amended to provide that beginning on the third anniversary of the closing of the purchase of the Initial Acquisition Hotels, the Company may terminate the Hotel Management Agreements upon six months' notice to the IAH Manager without payment of any termination fee to the IAH Manager.

### *Initial Acquisition Hotels Franchise Agreements*

Upon acquisition of the Initial Acquisition Hotels, the lessee subsidiary of the TRS entered into hotel franchise agreements with the Homewood Suites Franchise LLC. Each hotel franchise agreement has an initial term of 15 years. The hotel franchise agreements provide for a franchise royalty fee equal to 4% of the hotel's gross room revenue and a program fee equal to 4% of the hotel's gross room revenue. The franchise agreements generally have no termination rights unless the franchisee fails to cure an event of default in accordance with the franchise agreements. Franchise fees were \$343 thousand and \$343 thousand for the periods presented.

### *Initial Acquisition Hotels Purchase Price Allocation*

The allocation of the purchase price to the Initial Acquisition Hotels, based on their fair value, were as follows (in thousands):

	Homewood Suites Orlando Maitland, FL	Homewood Suites Boston Billerica, MA	Homewood Suites Minneapolis Mall of America Bloomington, MN	Homewood Suites Nashville Brentwood, TN	Homewood Suites Dallas Market Center Dallas, TX	Homewood Suites Hartford Farmington, CT	Total
Acquisition date	04/23/10	04/23/10	04/23/10	04/23/10	04/23/10	04/23/10	
Land	\$ 1,800	\$ 1,470	\$ 3,500	\$ 1,525	\$ 2,500	\$ 1,325	\$ 12,120
Building and improvements	7,200	10,555	13,960	9,300	7,583	9,375	57,973
Furniture, fixtures and equipment	500	525	554	425	617	800	3,421
Cash	5	5	5	5	5	5	30
Accounts receivable, net	65	60	63	54	70	67	379
Prepaid expenses and other assets	9	12	2	1	2	5	31
Accounts payable and accrued expenses	(79)	(77)	(70)	(60)	(77)	(77)	(440)
Net assets acquired	\$ 9,500	\$ 12,550	\$ 18,014	\$ 11,250	\$ 10,700	\$ 11,500	\$ 73,514

## [Table of Contents](#)

The following revenues and net income from the Initial Acquisition Hotels are included in the consolidated statements of operations for the three and six months ended June 30, 2010 (in thousands):

Hotel	For the three and six months ended June 30, 2010	
	Revenue	Net Income
Homewood Suites Orlando — Maitland, FL	\$ 702	\$ 6
Homewood Suites Boston — Billerica, MA	916	64
Homewood Suites Minneapolis — Mall of America, Bloomington, MN	982	82
Homewood Suites Nashville — Brentwood, TN	737	52
Homewood Suites Dallas — Market Center, Dallas, TX	639	15
Homewood Suites Hartford — Farmington, CT	682	46
Total	<u>\$ 4,658</u>	<u>\$ 265</u>

### *Initial Acquisition Hotels — Pro Forma Financial Information*

The following condensed pro forma financial information presents the results of operations as if the acquisition of the Initial Acquisition Hotels had taken place on January 1, 2010. Since the Company commenced operations on April 21, 2010 upon completion of the IPO, pro forma adjustments have been included for corporate general and administrative expense and income taxes for the periods presented. The 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 acquisition taken place on January 1, 2010, nor does it purport to represent the results of operations for future periods (in thousands).

	For the six months ended June 30, 2010
Pro forma total revenues	\$ 11,461
Pro forma total hotel expense	9,485
Pro forma total operating expenses	12,008
Pro forma operating loss	(547)
Pro forma net loss	<u>\$ (612)</u>
Pro forma net loss per share:	
Basic and diluted	\$ (0.07)

## **4. Investment in Hotel Properties**

Investment in hotel properties as of June 30, 2010, consisted of the following (in thousands):

	June 30, 2010
Land and improvements	\$ 12,120
Building and improvements	57,973
Furniture, fixtures and equipment	3,421
	<u>73,514</u>
Less accumulated depreciation	(397)
Work in process	15
Investment in hotel properties, net	<u>\$ 73,132</u>

## 5. Earnings Per Share

The following is a reconciliation of the amounts used in calculating basic and diluted net loss per share (in thousands, except per share data):

	For the three months ended June 30, 2010	For the six months ended June 30, 2010
<b>Numerator:</b>		
Net loss attributable to common shareholders	\$ (642)	\$ (642)
Dividends paid on unvested restricted shares	—	—
Undistributed earnings attributable to unvested restricted shares	—	—
Net loss attributable to common shareholders excluding amounts attributable to unvested restricted shares	<u>\$ (642)</u>	<u>\$ (642)</u>
<b>Denominator:</b>		
Weighted average number of common shares — basic	7,119,725	3,580,028
Effect of dilutive securities:		
Unvested restricted shares	—	—
Compensation-related shares	—	—
Weighted average number of common shares — diluted	<u>7,119,725</u>	<u>3,580,028</u>
<b>Basic Earnings per Common Share:</b>		
Net loss attributable to common shareholders per weighted average common share excluding amounts attributable to unvested restricted shares	<u>\$ (0.09)</u>	<u>\$ (0.18)</u>
<b>Diluted Earnings per Common Share:</b>		
Net loss attributable to common shareholders per weighted average common share excluding amounts attributable to unvested restricted shares	<u>\$ (0.09)</u>	<u>\$ (0.18)</u>

## 6. Shareholders' Equity

Under the initial Declaration of Trust of the Company, the total number of shares initially authorized for issuance was 1,000 common shares. On October 30, 2009, the Company issued the sole shareholder of the Company 1,000 common shares at \$10.00 per share.

Effective March 31, 2010, the Company's Declaration of Trust was amended and restated to authorize the issuance of 500,000,000 common shares and 100,000,000 preferred shares. On April 21, 2010, the Company completed its IPO. The IPO resulted in the sale of 8,625,000 common shares at a \$20.00 price per share, generating \$172.5 million in gross proceeds. Net proceeds, after underwriters' discounts and commissions and other offering costs, were approximately \$158.9 million. Underwriting discounts and offering costs of \$13.6 million have been recorded as a reduction in additional paid-in capital. This includes unpaid accrued underwriters' commission of \$5.2 million which, in accordance with the underwriting agreement entered into in connection with the IPO, is payable once the Company invests at least 85% of the net proceeds from the offering in hotel properties. Concurrently with the closing of the IPO, in a separate private placement pursuant to Regulation D under the Securities Act of 1933, as amended, the Company sold 500,000 of its common shares to Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, at the public offering price of \$20.00 per share, for proceeds to the Company of \$10 million. Following the close of the IPO, the Company repurchased the 1,000 shares issued to Mr. Fisher in October 2009 at his cost of \$10.00 per share. There were no preferred shares issued or outstanding as of June 30, 2010.

## 7. Equity Incentive Plan

On April 9, 2010, the Company's sole shareholder approved the Equity Incentive Plan (the "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, including grants of restricted common shares and long-term incentive plan units ("LTIP Units"). Share awards under this plan generally vest over a period of three to five years based on continued employment. The Equity Incentive Plan is administered by the Compensation Committee of the Company's Board of Trustees (the "Compensation Committee"), who has the ability to approve all terms of awards under the Equity Incentive Plan. The Compensation Committee also has the ability to approve who will receive grants under the Equity Incentive Plan and the

## [Table of Contents](#)

number of common shares subject to the grant. The Equity Incentive Plan is scheduled to terminate on April 8, 2020.

The number of common shares authorized for issuance under the Equity Incentive Plan is 565,359. In connection with share splits, dividends, recapitalizations and certain other events, the Company's Board of Trustees will make adjustments that it deems appropriate in the aggregate number of common shares that may be issued under the Equity Incentive Plan and the terms of outstanding awards. On April 21, 2010, the Company's Operating Partnership granted 246,960 long-term incentive plan units to the Company's executive officers pursuant to the Equity Incentive Plan. In addition, on April 26, 2010 and May 20, 2010, the Company issued 40,000 and 36,550 restricted common shares to the Company's Independent Trustees and executive officers, respectively, pursuant to the Equity Incentive Plan. As of June 30, 2010, there were 241,849 common shares available for future grant under the Equity Incentive Plan.

### *Restricted Share Awards*

The Company measures compensation expense for 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 statements of operations. The Company will pay dividends on nonvested restricted shares.

A summary of the Company's restricted share awards for the six months ended June 30, 2010 is as follows:

	Number of Shares	Weighted - Average Grant Date Fair Value
Nonvested at January 1, 2010	—	\$ —
Granted	76,550	19.31
Vested	—	—
Forfeited	—	—
Nonvested at June 30, 2010	<u>76,550</u>	<u>\$ 19.31</u>

As of June 30, 2010 and December 31, 2009, there were \$1.4 million and zero, respectively, of unrecognized compensation costs related to restricted share awards. As of June 30, 2010, these costs were expected to be recognized over a weighted—average period of approximately 2.9 years. For each of the three and six months ended June 30, 2010, the Company recognized approximately \$75 thousand in 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*

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 will not receive a tax deduction for the value of any LTIP Units granted to employees. LTIP Units, whether vested or not, will 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 will 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, at any time, into an equal number of common units of limited partnership interest in the Operating Partnership (“OP Units”), which may, in the Company’s sole and absolute discretion, be redeemed by the Company for cash or exchanged for 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 Codification Topic (“ASC”) 718, “Stock Compensation”. The LTIP Units granted to the Company’s executive officers vest ratably over a five-year period beginning on the date of grant.

The LTIP Units’ fair value was determined by using a discounted value approach. The LTIP Units were valued at \$15.18 on the grant date. 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 OP 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; 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 \$149 thousand in compensation expense related to the LTIP Units for the three and six months ended June 30, 2010. As of June 30, 2010, there was \$3.6 million of total unrecognized compensation cost related to LTIP Units. This cost is expected to be recognized over the weighted average of 4.8 years which represents the average remaining vesting period of the LTIP Units. As of June 30, 2010, none of the LTIP Units have reached parity.

## **8. 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. The Company is not presently subject to any litigation nor, to the Company’s knowledge, is any litigation threatened.

## **9. Related Party Transactions**

The Company paid \$3.2 million to reimburse Mr. Fisher for expenses he incurred in connection with the Company’s formation and the IPO, including \$2.5 million he funded as earnest money deposits for the Company’s purchase of the Initial Acquisition Hotels. Mr. Fisher had also advanced \$14 thousand to the Company which was included in accounts payable and accrued expenses on the accompanying balance sheet as of December 31, 2009 which was reimbursed following the close of the IPO.

Mr. Fisher owns 90% of Island Hospitality Management, Inc. (“IHM”), a hotel management company. Subsequent to June 30, 2010, the Company entered into hotel management agreements with IHM to manage certain of its hotels.



## 10. Subsequent Events

On May 18, 2010, the Company signed an agreement to acquire four hotels, including a 133-room Residence Inn by Marriott® in White Plains, New York, a 120-room Hampton Inn & Suites® in Houston, Texas, a 105-room Courtyard by Marriott® in Altoona, Pennsylvania and an 86-room SpringHill Suites by Marriott® in Washington, Pennsylvania. The purchase and sale agreement for the hotels provides for an aggregate purchase price of \$61.0 million, including assumption of approximately \$12.5 million of debt collateralized by two of the properties.

On July 2, 2010, the Company acquired the first of these four hotels, the Hampton Inn & Suites® Houston-Medical Center in Houston, Texas for \$16.5 million, plus customary pro-rated amounts and closing costs, from Moody National 1715 OST Houston S, LLC. The hotel will be managed by IHM pursuant to a 5-year management agreement. The acquisition of the remaining three hotels in this portfolio is subject to completion of due diligence and to the following closing conditions:

- The closing of the purchase of the Courtyard and the SpringHill Suites is subject to lender approval of the Company's assumption of debt on those two properties. The Company has received such lender approval subject to the completion of final documentation and expects to close the acquisition of these hotels on or before August 17, 2010; and
- The closing of the purchase of the Residence Inn is subject to the seller's right to withdraw the property from the acquisition portfolio, in exchange for payment of a breakage fee to the Company, if the seller is unable to receive lender consent to the sale. In the event that the Residence Inn is removed from the acquisition portfolio, the Company has the option to purchase the Residence Inn for up to an additional year.

On August 3, 2010, the Company acquired the 124-room Residence Inn by Marriott® — Long Island Holtsville on Long Island, New York for \$21.3 million, plus customary pro-rated amounts and closing costs, from Holtsville Hotel Group, LLC and FB Holtsville Utility LLC. The hotel will be managed by IHM pursuant to a 5-year management agreement.

On August 6, 2010, the Company entered into an agreement to acquire the Residence Inn by Marriott® — New Rochelle in New Rochelle, New York for \$21 million. The acquisition of the New Rochelle hotel is expected to close within 45 days of the date of the purchase agreement, subject to satisfactory completion of due diligence and customary closing conditions.

On August 10, 2010, the Company signed a non-binding letter of intent with a group of lenders to provide commitments for an \$85 million senior secured credit facility. We expect to use this credit facility to fund acquisitions, for property improvements and for general corporate purposes.

## [Table of Contents](#)

The allocation of the purchase price to the hotels acquired after June 30, 2010 is based on preliminary estimates of fair value as follows (in thousands):

	Hampton Inn & Suites Houston Medical Center Houston, TX	Residence Inn Holtsville Long Island, NY	Total
Acquisition date	07/02/10	08/03/10	
Land	\$ 2,310	\$ 2,982	\$ 5,292
Building and improvements	13,530	17,466	30,996
Furniture, fixtures and equipment	660	852	1,512
Cash	2	2	4
Accounts receivable, net	15	29	44
Prepaid expenses and other assets	—	7	7
Accounts payable and accrued expenses	(18)	(38)	(56)
Net assets acquired	\$ 16,499	\$ 21,300	\$ 37,799

The following condensed pro forma financial information presents the results of operations as if the Hampton Inn & Suites® Houston-Medical Center in Houston, Texas and the Residence Inn by Marriott® — Long Island Holtsville on Long Island, New York acquisitions had taken place on January 1, 2010. Since the Company commenced operations on April 21, 2010 upon completion of the IPO, pro forma adjustments have been included for corporate general and administrative expense and income taxes for the periods presented. The 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 acquisition taken place on January 1, 2010, nor does it purport to represent the results of operations for future periods (in thousands).

	For the six months ended June 30, 2010
Pro forma total revenues	\$ 7,840
Pro forma total hotel expense	5,894
Pro forma total operating expenses	8,665
Pro forma operating loss	(825)
Pro forma net loss	\$ (866)
Pro forma net loss per share:	
Basic and diluted	\$ (0.09)

## **Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.**

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report.

### **Statement Regarding Forward-Looking Information**

The following information contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include information about possible or assumed future results of the lodging industry, our business, financial condition, liquidity, results of operations, cash flow and plans and objectives. These statements generally are characterized by the use of the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, our actual results could differ materially from those set forth in the forward-looking statements. Some factors that might cause such a difference include the following: the current global economic downturn, increased direct competition, changes in government regulations or accounting rules, changes in local, national and global real estate conditions, declines in the lodging industry, seasonality of the lodging industry, our

## Table of Contents

ability to obtain lines of credit or permanent financing on satisfactory terms, changes in interest rates, availability of proceeds from offerings of our common shares, our ability to identify suitable investments, our ability to close on identified investments and inaccuracies of our accounting estimates. Given these uncertainties, undue reliance should not be placed on such statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances or to reflect the occurrence of unanticipated events. The forward-looking statements should be read in light of the risk factors identified in the “Risk Factors” section of our Registration Statement on Form S-11, as filed with the Securities and Exchange Commission (“SEC”).

### **Overview**

We are a self-advised hotel investment company organized in October 2009. We raised gross proceeds of \$172.5 million upon completion of our initial public offering of common shares (“IPO”) on April 21, 2010. We raised an additional \$10 million through a private placement of our common shares with Jeffrey H. Fisher, our Chairman, President and Chief Executive Officer. We had no operating assets on the date of our IPO.

Our investment strategy is to invest in premium-branded upscale extended-stay and select-service hotels in geographically diverse markets with high barriers to entry near strong demand generators. Consistent with our investment strategy, on April 23, 2010, two days after the completion of our IPO, we invested \$73.5 million of the offering proceeds in the acquisition of a portfolio of six Homewood Suites by Hilton® hotels. Subsequent to June 30, 2010, we have acquired or have signed agreements to acquire six additional hotels comprising an aggregate of 692 rooms. We expect that a significant portion of our portfolio will consist of hotels in the upscale extended-stay or select-service categories, including brands such as Homewood Suites by Hilton®, Residence Inn by Marriott®, Summerfield Suites by Hyatt®, Courtyard by Marriott®, Hampton Inn® and Hampton Inn and Suites®.

We intend to elect to qualify for treatment as a real estate investment trust (“REIT”) for federal income tax purposes. In order to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), we cannot operate the hotels that we acquire. Therefore, our operating partnership, Chatham Lodging, L.P. (the “Operating Partnership”), and its subsidiaries will lease our hotel properties to lessee subsidiaries (“TRS Lessees”) of our taxable REIT subsidiary (“TRS”), who will in turn engage eligible independent contractors to manage the hotels. Each of these lessees will be treated as a taxable REIT subsidiary for federal income tax purposes and will be evaluated for consolidation within our financial statements for accounting purposes. However, since we will control both the Operating Partnership and the TRS Lessees, our principal source of funds on a consolidated basis will be from the operations of our hotels. The earnings of the TRS Lessees will be subject to taxation as regular C corporations, as defined in the Code, reducing the TRS Lessees’ ability to pay dividends, and therefore our funds from operations and the cash available for distribution to our shareholders.

### **Financial Condition and Operating Performance Metrics**

We measure financial condition and hotel operating performance by evaluating financial metrics 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”), and
- Adjusted EBITDA.

We evaluate the hotels in our portfolio and potential acquisitions using these metrics to determine each hotel’s contribution towards 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.

## [Table of Contents](#)

Please refer to “Non-GAAP Financial Measures” for a detailed discussion of our use of FFO and EBITDA and a reconciliation of FFO and EBITDA to net income or loss, a GAAP measurement.

### Results of Operations

Prior to April 21, 2010, operations had not commenced because we were in our developmental stage.

Operating performance for the U.S. lodging industry declined 16.7% in 2009, as reported by Smith Travel Research, due to the challenging economic conditions created by declining GDP, high levels of unemployment, low consumer confidence, the significant decline in home prices and a reduction in available credit. We believe that the hotel industry’s performance is correlated to the performance of the economy and with key economic indicators such as GDP growth, employment trends, corporate profits and consumer confidence improving, we expect a rebound in the performance of the hotel industry. After 19 consecutive months of declining year over year RevPAR, RevPAR for the hotel industry was up 3.8%, 3.5%, 7.1% and 8.0% for March, April, May and June, 2010, respectively, as reported by Smith Travel Research. While we are encouraged by these improvements in key hotel operating metrics, the lodging industry’s continued improvements will be contingent upon continued rebound of the general economy.

For the second quarter of 2010, the Company had a net loss of \$0.6 million, or a loss of \$0.09 per diluted share. FFO was \$(0.2) million or \$(0.03) per basic share and Adjusted FFO was \$0.8 million, or \$0.11 per diluted share. EBITDA was less than \$0.1 million and Adjusted EBITDA was \$1.0 million.

#### Three months and six months ended June 30, 2010

Results of operations for the three and six months ended June 30, 2010 include the operating activities of the initial six hotel properties for the sixty-nine (69) days (commencing on April 23, 2010, their acquisition date) and are not indicative of the results we expect after our investment strategy has been fully implemented.

##### Revenues

Total revenue was \$4.7 million, which includes room revenue of \$4.5 million and other operating revenue, comprised of meeting room, gift shop, in-room movie and other ancillary amenities revenue, of less than \$0.2 million.

Room revenue is the primary component of total revenue. Therefore, the Company’s revenue results are dependent on maintaining and improving occupancy, ADR and RevPAR at our hotels. Occupancy, ADR, and RevPAR results presented in the following table are for the 69 days ended June 30, 2010:

	69 Days Ended June 30, 2010
Portfolio	
ADR	\$103.55
Occupancy	78.2%
RevPar	\$ 81.00

##### Hotel Operating Expenses

Hotel operating expenses were \$2.7 million. Direct hotel operating expenses included rooms expense of \$1.1 million and other direct expenses of \$1.6 million, which includes management and franchise fees, insurance, utilities, repairs and maintenance, advertising and sales, and general and administrative expenses.

##### Depreciation and Amortization

Depreciation and amortization are recorded on our hotel buildings over 40 years from the date of acquisition. Depreciable lives of hotel furniture, fixtures and equipment are generally three to ten years between the date of acquisition and the date that the furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense was \$0.4 million.

## [Table of Contents](#)

### *Real Estate and Personal Property Taxes*

Total real estate and personal property taxes expenses were \$0.2 million.

### *Corporate General and Administrative*

Corporate general and administrative expenses principally consist of employee-related costs, including base payroll and restricted stock awards. These expenses also include corporate operating costs, professional fees and trustees' fees. Total corporate general and administrative expenses were \$1.0 million, which included a non-cash share-based compensation expense of \$0.2 million, as well as \$0.1 million of organization costs that we do not expect to be recurring.

### *Acquisition Transaction Costs*

We incurred acquisition transaction costs of \$1.0 million related to the purchase of our initial six hotels and potential hotel acquisitions. These acquisition-related costs are expensed when incurred rather than capitalized.

### *Interest Income*

Interest income on cash and cash equivalents was \$38 thousand.

### *Income Tax Expense*

Income tax expense was \$47 thousand, which resulted from taxable operating income incurred by our TRS.

### *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 our Registration Statement on Form S-11, as filed with the SEC.

### **Non-GAAP Financial Measures**

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

FFO, Adjusted FFO, EBITDA and Adjusted 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 and Adjusted EBITDA are not measures of our liquidity, nor are FFO, Adjusted FFO, EBITDA and Adjusted 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 and Adjusted 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, items classified by GAAP as extraordinary, the cumulative effect of changes in accounting principles, plus depreciation and amortization, and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many real estate industry investors consider FFO to be helpful in evaluating a real estate company's operations. We believe that by excluding the effect of depreciation and amortization, gains or losses from sales for real estate, extraordinary items and the portion of items related

## [Table of Contents](#)

to unconsolidated entities, all of which are based on historical cost accounting, and which may be of lesser significance in evaluating current performance, that FFO can facilitate comparisons of operating performance between periods and between REITs.

We further adjust FFO for certain additional recurring and non-recurring items that are not in NAREIT's definition of FFO such as acquisition transaction costs. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs.

We calculate EBITDA as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization. We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions.

We further adjust EBITDA for certain additional recurring and non-recurring items such as acquisition transaction costs. We believe that Adjusted EBITDA provides investors with another financial measure that can facilitate comparisons of operating performance between periods and between REITs.

The following is a reconciliation between net loss to FFO and Adjusted FFO for the three and six months ended June 30, 2010 (in thousands, except share data):

	<u>For the three months ended June 30, 2010</u>	<u>For the six months ended June 30, 2010</u>
<b>Funds From Operations ("FFO"):</b>		
Net loss attributable to common shareholders	\$ (642)	\$ (642)
Depreciation	397	397
<b>FFO</b>	<b>(245)</b>	<b>(245)</b>
Acquisition transaction costs	1,005	1,005
<b>Adjusted FFO</b>	<b>\$ 760</b>	<b>\$ 760</b>
<b>Weighted average number of common shares</b>		
Basic	7,119,725	3,580,028
Diluted	7,119,725	3,580,028

The following is a reconciliation between net loss to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2010 (in thousands):

	<u>For the three months ended June 30, 2010</u>	<u>For the six months ended June 30, 2010</u>
<b>Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"):</b>		
Net loss attributable to common shareholders	\$ (642)	\$ (642)
Interest expense	—	—
Income tax expense	47	47
Depreciation and amortization	402	402
Share based compensation	224	224
<b>EBITDA</b>	<b>31</b>	<b>31</b>
Acquisition transaction costs	1,005	1,005
<b>Adjusted EBITDA</b>	<b>\$ 1,036</b>	<b>\$ 1,036</b>

## Sources and Uses of Cash

For the three months ended June 30, 2010, net cash flows from operations were \$0.7 million, net cash flows used in investing activities were \$76.0 million, which represents the acquisition of the six initial hotels, and net cash flows provided by financing activities were \$174.0 million, which represents proceeds generated from the IPO and our private placement of common shares to our Chief Executive Officer, net of underwriting fees and offering costs paid or payable to third parties as of June 30, 2010.

As of June 30, 2010, we had cash and cash equivalents of approximately \$98.7 million. We are required to pay \$5.2 million of deferred underwriting fees once we have invested at least 85% of the IPO proceeds in hotel properties. On July 2, 2010, and August 3, 2010, we used \$16.5 million and \$21.3 million, respectively, in completing the acquisitions of the Hampton Inn & Suites® Houston-Medical Center in Houston, Texas and the Residence Inn by Marriott® — Long Island Holtsville on Long Island, New York. We intend to use the remaining proceeds from the IPO, and our private placement of common shares to our Chief Executive Officer, to complete the acquisitions of the following three hotels for a total of approximately \$44.5 million: the Residence Inn by Marriott® in White Plains, New York, the Courtyard by Marriott® in Altoona, Pennsylvania, and the SpringHill Suites by Marriott® in Washington, Pennsylvania. We intend to use the remaining IPO proceeds, along with financing from our anticipated senior secured credit facility, to complete the acquisition of the Residence Inn by Marriott® — New Rochelle in New York.

## Liquidity and Capital Resources

We intend to limit the outstanding principal amount of our consolidated indebtedness to not more than 35% of the investment in our hotel properties at cost (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges), measured at the time the debt is incurred, and a subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this limitation. Our board of trustees may modify or eliminate this policy at any time without the approval of our shareholders. Following completion of our IPO and concurrent private placement of common shares to our Chief Executive Officer, and following our completion of hotel acquisitions described in Notes 3 and 10 to our financial statements, we expect to have substantially invested and committed our net IPO proceeds in hotel properties.

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 an anticipated revolving credit facility. We believe that our net cash provided by operations will be adequate to fund operating requirements, pay interest on any borrowings and fund dividends in accordance with the requirements for qualification as a REIT under the U.S. Federal Tax Code. We expect to meet our long-term liquidity requirements through the cash we will have available from our IPO and subsequent borrowings, and we expect to fund other investments in hotel properties and scheduled debt maturities through long-term secured and unsecured borrowings and the issuance of additional equity or debt securities.

We have signed a non-binding letter of intent with a group of lenders to provide commitments for an \$85 million senior secured credit facility. This facility, which if obtained is expected to be secured by certain of our hotel properties and other assets, and would be used to fund acquisitions, for property improvements and for general corporate purposes. We intend to repay any indebtedness obtained under this facility from time to time out of cash flow and from the net proceeds of issuances of additional equity and debt securities. No assurances can be given that we will obtain such a credit facility or, if we do, what the amount and terms will be. Our failure to obtain such a facility on favorable terms could adversely impact our ability to execute our business strategy. In the future, we may seek to increase the amount of our credit facility, negotiate additional credit facilities or issue corporate debt instruments. Any debt incurred or issued by us may be secured or unsecured, long-term or short-term, fixed or variable interest rate and may be subject to such other terms as we deem prudent.

We intend to invest in hotel properties only as suitable opportunities arise. In the near term, we intend to fund future investments in properties with the net proceeds of our IPO and the concurrent private placement. In the longer term, we intend to finance our investments with the net proceeds from additional issuances of common and preferred shares, issuances of units of limited partnership interest in the Operating Partnership or other securities or borrowings. The success of our acquisition strategy may depend, in part, on our ability to access additional capital through issuances of equity securities.

## Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2010.

## Contractual Obligations

On May 18, 2010, the Company signed an agreement to acquire four hotels, including a 133-room Residence Inn by Marriott® in White Plains, New York, a 120-room Hampton Inn & Suites® in Houston, Texas, a 105-room Courtyard by Marriott® in Altoona, Pennsylvania and an 86-room SpringHill Suites by Marriott® in Washington, Pennsylvania. The purchase and sale agreement for the hotels provides for an aggregate purchase price for the four properties of \$61.0 million, including assumption of approximately \$12.5 million of debt collateralized by two of the properties.

On July 2, 2010, the Company acquired the first of these four hotels, the Hampton Inn & Suites® Houston-Medical Center in Houston, Texas for \$16.5 million, plus customary pro-rated amounts and closing costs, from Moody National 1715 OST Houston S, LLC. The hotel will be managed by IHM pursuant to a 5-year management agreement. The acquisition of the remaining three hotels, in this portfolio is subject to completion of due diligence and to the following closing conditions:

- The closing of the purchase of the Courtyard and the SpringHill Suites is subject to lender approval of the Company's assumption of debt on those two properties. The Company has received such lender approval subject to the completion of final documentation and expects to close the acquisition of these hotels on or before August 17, 2010; and
- The closing of the purchase of the Residence Inn is subject to the seller's right to withdraw the property from the acquisition portfolio, in exchange for payment of a breakage fee to the Company, if the seller is unable to receive lender consent to the sale. Due to the uncertainty that the seller will receive lender approval, there can be no assurance that the Company will complete the acquisition. In the event that the Residence Inn is removed from the acquisition portfolio, the Company has the option to purchase the Residence Inn for up to an additional year.

On August 3, 2010, the Company acquired the 124-room Residence Inn by Marriott® — Holtsville on Long Island, New York for \$21.3 million, plus customary pro-rated amounts and closing costs, from Holtsville Hotel Group, LLC and FB Holtsville Utility LLC. The hotel will be managed by IHM pursuant to a 5-year management agreement.

On August 6, 2010, the Company entered into an agreement to acquire the Residence Inn by Marriott® — New Rochelle in New Rochelle, New York for \$21 million. The acquisition of the New Rochelle hotel is expected to close within 45 days of the date of the purchase agreement, subject to satisfactory completion of due diligence and customary closing conditions.

On August 10, 2010, the Company signed a non-binding letter of intent with a group of lenders to provide commitments for an \$85 million senior secured credit facility. We expect to use this credit facility to fund acquisitions, for property improvements and for general corporate purposes.

## 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*

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



## Table of Contents

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, 15 years for building improvements, seven years for land improvements and three 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. Furniture, fixtures and equipment under capital leases are carried at the present value of the minimum lease payments. 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 our 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. We do not believe that there currently are any facts or circumstances indicating impairment in the carrying value of any of our hotel properties.

The Company will consider a hotel property as held for sale when a binding agreement to purchase the property has been signed under which the buyer has committed significant 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 will cease and an impairment loss if any will be recognized if the fair value of the hotel property, less the costs to sell, is lower than the carrying amount of the hotel property. The Company will classify the loss, together with the related operating results, as discontinued operations in the consolidated statements of operations and classify the assets and related liabilities as held for sale in the consolidated balance sheets. As of June 30, 2010, the Company had no hotel properties held for sale.

### *Revenue Recognition*

Revenues from hotel operations are recognized when rooms are occupied and when services are provided. Revenues consist 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*

The Company measures compensation expense for the restricted share awards 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 statements of operations. The Company will pay dividends on nonvested restricted shares.

## **Item 3. 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 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.

## **Item 4T. Controls and Procedures.**

### ***Disclosure Controls and Procedures***

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its 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, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

## [Table of Contents](#)

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. 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. The Company is not presently subject to any litigation nor, to the Company's knowledge, is any litigation threatened against the Company.

### **Item 1A. Risk Factors.**

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of Amendment No. 7 to the Company's Registration Statement on Form S-11 filed with the SEC on April 5, 2010.

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

#### **Unregistered Sales of Equity Securities**

In connection with its formation and initial capitalization, on October 30, 2009, the Company issued 1,000 of its common shares to Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, for \$10.00 per share. These shares were repurchased by the Company in connection with the IPO.

Concurrently with the closing of the IPO on April 21, 2010, in a separate private placement pursuant to Regulation D under the Securities Act, the Company sold 500,000 of its common shares to Jeffrey H. Fisher at the public offering price of \$20.00 per share.

#### **Use of Proceeds**

Our registration statement on Form S-11, as amended (Registration No. 333-162889) (the "Registration Statement"), with respect to the IPO, registered up to \$172.5 million of our common shares, par value \$0.01 per share, and was declared effective on April 15, 2010. We sold a total of 8,625,000 common shares in the IPO, including 1,125,000 common shares issued and sold pursuant to the underwriters' exercise of the overallotment option for gross proceeds of \$172.5 million. The IPO was completed on April 21, 2010. As of the date of filing this report, the IPO has terminated and all of the securities registered pursuant to the Registration Statement have been sold. The joint book-running managers of the IPO were Barclays Capital Inc. and FBR Capital Markets & Co. Co-managers of the IPO were Morgan Keegan & Company, Inc., Stifel, Nicolaus & Company, Incorporated, Credit Agricole Securities (USA) Inc. and JMP Securities LLC. The expenses of the IPO were as follows (in millions):

Underwriting discounts and commissions	\$ 12.1
Expenses paid to or for our underwriters	0.0
Other expenses	1.5
Total underwriting discounts and expenses	<u>\$ 13.6</u>

## Table of Contents

All of the foregoing underwriting discounts and expenses were direct or indirect payments to persons other than: (i) our trustees, officers or any of their associates; (ii) persons owning ten percent (10%) or more of our common shares; or (iii) our affiliates.

The net proceeds to us of the IPO were approximately \$158.9 million, after payment in full of fees to the underwriters and offering expenses. In accordance with the underwriting agreement, \$5.2 million of the underwriting discount and commissions have been accrued and will be paid when we purchase hotel properties in accordance with our investment strategy in an amount equal to at least 85% of the amount of the net proceeds. Until that time, the net proceeds including the unpaid underwriting discount and commission have been invested in short-term, interest-bearing, investment-grade securities, and money market accounts that are consistent with our intention to qualify as a REIT.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

### **Item 5. Other information.**

None.

### **Item 6. Exhibits.**

The following exhibits are filed as part of this report:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.1	Chatham Lodging Trust Equity Incentive Plan
10.2	Form of Share Award Agreement for officers
10.3	Agreement of Purchase and Sale, dated as of May 18, 2010, by and among Chatham Lodging Trust, as purchaser, and certain affiliates of Moody National Companies, as sellers, for the Residence Inn by Marriott, White Plains, NY; Hampton Inn & Suites Houston — Medical Center, Houston, TX; SpringHill Suites by Marriott, Washington, PA; and Courtyard by Marriott, Altoona, PA
10.4	Agreement of Purchase and Sale, dated as of June 17, 2010, by and among Chatham Lodging Trust, as purchaser, and Holtsville Hotel Group LLC and FB Holtsville Utility LLC, as sellers, for the Residence Inn Long Island Holtsville, Holtsville, NY
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

**SIGNATURE**

Pursuant to the requirements 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.

Dated: August 13, 2010

**CHATHAM LODGING TRUST**

/s/ JULIO E. MORALES

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**Julio E. Morales**

Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Exhibit Index**

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**CHATHAM LODGING TRUST  
EQUITY INCENTIVE PLAN**

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## TABLE OF CONTENTS

Section	Page
Article I DEFINITIONS	1
1.01. Affiliate	1
1.02. Agreement	1
1.03. Board	1
1.04. Change in Control	1
1.05. Code	2
1.06. Committee	2
1.07. Common Share	3
1.08. Company	3
1.09. Completion Date	3
1.10. Control Change Date	3
1.11. Corresponding SAR	3
1.12. Dividend Equivalent Right	3
1.13. Exchange Act	4
1.14. Fair Market Value	4
1.15. Initial Value	4
1.16. LTIP Unit	4
1.17. Operating Partnership	4
1.18. Option	5
1.19. Other Equity-Based Award	5
1.20. Participant	5
1.21. Performance Units	5
1.22. Plan	5
1.23. REIT	5
1.24. SAR	5
1.25. Share Award	6
1.26. Ten Percent Shareholder	6
Article II PURPOSES	6
Article III ADMINISTRATION	6
Article IV ELIGIBILITY	7
Article V COMMON SHARES SUBJECT TO PLAN	7
5.01. Common Shares Issued	7
5.02. Aggregate Limit	8
5.03. Reallocation of Shares	8
Article VI OPTIONS	9
6.01. Award	9
6.02. Option Price	9
6.03. Maximum Option Period	9

Section	Page
6.04. Nontransferability	9
6.05. Transferable Options	10
6.06. Employee Status	10
6.07. Exercise	10
6.08. Payment	10
6.09. Shareholder Rights	11
6.10. Disposition of Shares	11
 Article VII SARS	 11
7.01. Award	11
7.02. Maximum SAR Period	11
7.03. Nontransferability	11
7.04. Transferable SARs	12
7.05. Exercise	12
7.06. Employee Status	12
7.07. Settlement	13
7.08. Shareholder Rights	13
 Article VIII SHARE AWARDS	 13
8.01. Award	13
8.02. Vesting	13
8.03. Employee Status	13
8.04. Shareholder Rights	14
 Article IX PERFORMANCE UNIT AWARDS	 14
9.01. Award	14
9.02. Earning the Award	14
9.03. Payment	14
9.04. Shareholder Rights	14
9.05. Nontransferability	15
9.06. Transferable Performance Units	15
9.07. Employee Status	15
 Article X OTHER EQUITY—BASED AWARDS	 16
10.01. Award	16
10.02. Terms and Conditions	16
10.03. Payment or Settlement	16
10.04. Employee Status	16
10.05. Shareholder Rights	17
 Article XI ADJUSTMENT UPON CHANGE IN COMMON STOCK	 17
 Article XII COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES	 18
 Article XIII GENERAL PROVISIONS	 18
13.01. Effect on Employment and Service	18



<u>Section</u>	<u>Page</u>
13.02. Unfunded Plan	18
13.03. Rules of Construction	18
13.04. Withholding Taxes	19
13.05. REIT Status	19
Article XIV Change in Control	19
14.01. Impact of Change in Control	19
14.02. Assumption Upon Change in Control	20
14.03. Cash-Out Upon Change in Control	20
14.04. Limitation of Benefits	20
Article XV AMENDMENT	22
Article XVI DURATION OF PLAN	22
Article XVII EFFECTIVE DATE OF PLAN	22

**ARTICLE I**  
**DEFINITIONS**

**1.01. Affiliate**

Affiliate means any entity, whether now or hereafter existing, which controls, is controlled by, or is under common control with, the Company (including, but not limited to, joint ventures, limited liability companies and partnerships). For this purpose, the term “control” shall mean ownership of 50% or more of the total combined voting power or value of all classes of shares or interests in the entity, or the power to direct the management and policies of the entity, by contract or otherwise.

**1.02. Agreement**

Agreement means a written agreement (including any amendment or supplement thereto) between the Company and a Participant specifying the terms and conditions of a Share Award, an award of Performance Units, an Option, SAR or Other Equity-Based Award (including an LTIP) granted to such Participant.

**1.03. Board**

Board means the Board of Trustees of the Company.

**1.04. Change in Control**

“Change in Control” shall mean a change in control of the Company which will be deemed to have occurred after the date hereof if:

- (1) any “person” as such term is used in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof except that such term shall not include (A) the Company or any of its subsidiaries, (B) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, (D) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of the Company’s common shares, or (E) any person or group as used in Rule 13d-1(b) under the Exchange Act, is or becomes the Beneficial Owner, as such term is defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of securities of the Company representing at least 50% of the combined voting power or common shares of the Company;
- (2) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, and any new trustee (other than (A) a trustee designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (1), (3), or (4) of this Section 1.05 or (B) a trustee whose initial assumption of office

is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of trustees of the Company) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the trustees then still in office who either were trustees at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

- (3) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, more than 50% of the combined voting power and common shares of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or
- (4) there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect, including a liquidation) other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, more than fifty percent (50%) of the combined voting power and common shares of which is owned by shareholders of the Company in substantially the same proportions as their ownership of the common shares of the Company immediately prior to such sale.

If a change in control constitutes a payment event with respect to any Option, SAR, Share Award, Performance Unit or Other Equity-Based Award that provides for the deferral of compensation and is subject to Section 409A of the Code, no payment will be made under that award on account of a Change in Control unless the event described in (1), (2), (3) or (4) above, as applicable, constitutes a "change in control event" under Treasury Regulation Section 1.409A-3(i)(5).

#### 1.05. **Code**

Code means the Internal Revenue Code of 1986, and any amendments thereto.

#### 1.06. **Committee**

Committee means the Compensation Committee of the Board. Unless otherwise determined by the Board, the Committee shall consist solely of two or more non-employee members of the Board, each of whom is intended to qualify as a "non-employee director" as defined by Rule 16b-3 of the Exchange Act or any successor rule, an "outside director" for purposes of Section 162(m) of the Code (if awards under the Plan are subject to the deduction

limitation of Section 162(m) of the Code) and an “independent director” under the rules of any exchange or automated quotation system on which the Common Shares are listed, traded or quoted; provided, that any action taken by the Committee shall be valid and effective, whether or not the members of the Committee at the time of such action are later determined not to have satisfied the foregoing requirements or otherwise provided in any charter of the Committee. If there is no Compensation Committee, then “Committee” means the Board; and provided, further that with respect to awards made to a member of the Board who is not an employee of the Company or an Affiliate, “Committee” means the Board.

1.07. **Common Share**

Common Share means common shares of beneficial interest, par value \$0.01 per share, of the Company.

1.08. **Company**

Company means Chatham Lodging Trust, a Maryland real estate investment trust.

1.09. **Completion Date**

Completion Date means the initial closing date of the initial public offering of the Common Shares.

1.10. **Control Change Date**

Control Change Date means the date on which a Change in Control occurs. If a Change in Control occurs on account of a series of transactions, the “Control Change Date” is the date of the last of such transactions.

1.11. **Corresponding SAR**

Corresponding SAR means an SAR that is granted in relation to a particular Option and that can be exercised only upon the surrender to the Company, unexercised, of that portion of the Option to which the SAR relates.

1.12. **Dividend Equivalent Right**

Dividend Equivalent Right means the right, subject to the terms and conditions prescribed by the Committee, of a Participant to receive (or have credited) cash, shares or other property in amounts equivalent to the cash, shares or other property dividends declared on Common Shares with respect to specified Performance Units or Common Shares subject to an Other Equity-Based Award, as determined by the Committee, in its sole discretion. The Committee may provide that such Dividend Equivalents (if any) shall be distributed only when, and to the extent that, the underlying award is vested or earned and also may provide that

Dividend Equivalents (if any) shall be deemed to have been reinvested in additional Common Shares or otherwise reinvested.

**1.13. Exchange Act**

Exchange Act means the Securities Exchange Act of 1934, as amended.

**1.14. Fair Market Value**

Fair Market Value means, on any given date, the reported “closing” price of a Common Share on the New York Stock Exchange for such date or, if there is no closing price for a Common Share on the date in question, the closing price for a Common Share on the last preceding date for which a quotation exists. If, on any given date, the Common Shares are not listed for trading on the New York Stock Exchange, then Fair Market Value shall be the “closing” price of a Common Share on such other exchange on which the Common Shares are listed for trading for such date (or, if there is no closing price for a Common Share on the date in question, the closing price for a Common Share on the last preceding date for which such quotation exists) or, if the Common Shares are not listed on any exchange, the amount determined by the Committee using any reasonable method in good faith and in accordance with the regulations under Section 409A of the Code.

**1.15. Initial Value**

Initial Value means, with respect to a Corresponding SAR, the option price per share of the related Option and, with respect to an SAR granted independently of an Option, the price per Common Share as determined by the Committee on the date of grant; provided, however, that the price shall not be less than the Fair Market Value on the date of grant. Except as provided in Article XI, the Initial Value of an outstanding SAR may not be reduced (by amendment, cancellation and new grant or otherwise) without the approval of shareholders.

**1.16. LTIP Unit**

LTIP Unit means an “LTIP Unit” as defined in the Operating Partnership’s partnership agreement. An LTIP Unit granted under this Plan represents the right to receive the benefits, payments or other rights in respect of an LTIP Unit set forth in that partnership agreement, subject to the terms and conditions of the applicable Agreement and that partnership agreement.

**1.17. Operating Partnership**

Operating Partnership means Chatham Lodging, L. P.

1.18. **Option**

Option means a share option that entitles the holder to purchase from the Company a stated number of Common Shares at the price set forth in an Agreement.

1.19. **Other Equity-Based Award**

Other Equity-Based Award means any award other than an Option, SAR, a Performance Unit award or a Share Award which, subject to such terms and conditions as may be prescribed by the Committee, entitles a Participant to receive Common Shares or rights or units valued in whole or in part by reference to, or otherwise based on, Common Shares (including securities convertible into Common Shares) or other equity interests including LTIP Units.

1.20. **Participant**

Participant means an employee or officer of the Company or an Affiliate, a member of the Board, or an individual who provides bona fide services to the Company or an Affiliate (including an individual who provides services to the Company or an Affiliate by virtue of employment with, or providing services to, the Operating Partnership), and who satisfies the requirements of Article IV and is selected by the Committee to receive an award of Performance Units or a Share Award, Option, SAR, Other Equity-Based Award or a combination thereof.

1.21. **Performance Units**

Performance Units means an award, in the amount determined by the Committee, stated with reference to a specified number of Common Shares or other securities or property, that in accordance with the terms of an Agreement entitles the holder to receive a payment for each specified unit equal to the value of the Performance Unit on the date of payment.

1.22. **Plan**

Plan means this Chatham Lodging Trust Equity Incentive Plan.

1.23. **REIT**

REIT means a real estate investment trust within the meaning of Sections 856 through 860 of the Code.

1.24. **SAR**

SAR means a share appreciation right that in accordance with the terms of an Agreement entitles the holder to receive, with respect to each Common Share encompassed by the exercise of the SAR, the excess, if any, of the Fair Market Value at the time of exercise over the Initial

Value. References to “SARs” include both Corresponding SARs and SARs granted independently of Options, unless the context requires otherwise.

1.25. **Share Award**

Share Award means Common Shares awarded to a Participant under Article VIII.

1.26. **Ten Percent Shareholder**

Ten Percent Shareholder means any individual owning more than ten percent (10%) of the total combined voting power of all classes of shares of the Company or of a “parent corporation” or “subsidiary corporation” (as such terms are defined in Section 424 of the Code) of the Company. An individual shall be considered to own any voting shares owned (directly or indirectly) by or for his or her brothers, sisters, spouse, ancestors or lineal descendants and shall be considered to own proportionately any voting shares owned (directly or indirectly) by or for a corporation, partnership, estate or trust of which such individual is a shareholder, partner or beneficiary.

**ARTICLE II**  
**PURPOSES**

The Plan is intended to assist the Company and its Affiliates in recruiting and retaining individuals and other service providers with ability and initiative by enabling such persons or entities to participate in the future success of the Company and its Affiliates and to associate their interests with those of the Company and its shareholders. The Plan is intended to permit the grant of both Options qualifying under Section 422 of the Code (“incentive stock options”) and Options not so qualifying, and the grant of SARs, Share Awards, Performance Units, and Other Equity-Based Awards in accordance with the Plan and any procedures that may be established by the Committee. No Option that is intended to be an incentive stock option shall be invalid for failure to qualify as an incentive stock option. The proceeds received by the Company from the sale of Common Shares pursuant to this Plan shall be used for general corporate purposes.

**ARTICLE III**  
**ADMINISTRATION**

The Plan shall be administered by the Committee. The Committee shall have authority to grant SARs, Share Awards, Performance Units, Options and Other Equity-Based Awards upon such terms (not inconsistent with the provisions of this Plan), as the Committee may consider appropriate. Such terms may include conditions (in addition to those contained in this Plan), on the exercisability of all or any part of an Option or SAR or on the transferability or forfeitability of a Share Award, an award of Performance Units or an Other Equity-Based Award. Notwithstanding any such conditions, the Committee may, in its discretion, accelerate the time at which any Option or SAR may be exercised, or the time at which a Share Award or Other Equity-Based Award may become transferable or nonforfeitable or the time at which an Other

Equity-Based Award or an award of Performance Units may be settled. In addition, the Committee shall have complete authority to interpret all provisions of this Plan; to prescribe the form of Agreements; to adopt, amend, and rescind rules and regulations pertaining to the administration of the Plan (including rules and regulations that require or allow Participants to defer the payment of benefits under the Plan); and to make all other determinations necessary or advisable for the administration of this Plan. The Committee's determinations under the Plan (including without limitation, determinations of the individuals to receive awards under the Plan, the form, amount and timing of such awards, the terms and provisions of such awards and the Agreements) need not be uniform and may be made by the Committee selectively among individuals who receive, or are eligible to receive, awards under the Plan, whether or not such persons are similarly situated. The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. Any decision made, or action taken, by the Committee in connection with the administration of this Plan shall be final and conclusive. The members of the Committee shall not be liable for any act done in good faith with respect to this Plan or any Agreement, Option, SAR, Share Award, Other Equity-Based Award or award of Performance Units. All expenses of administering this Plan shall be borne by the Company.

#### **ARTICLE IV** **ELIGIBILITY**

Any employee of the Company or an Affiliate (including a trade or business that becomes an Affiliate after the adoption of this Plan) and any member of the Board is eligible to participate in this Plan. In addition, any other individual who provides significant services to the Company or an Affiliate (including an individual who provides services to the Company or an Affiliate by virtue of employment with, or providing services to, the Operating Partnership) is eligible to participate in this Plan if the Committee, in its sole discretion, determines that the participation of such individual is in the best interest of the Company.

#### **ARTICLE V** **COMMON SHARES SUBJECT TO PLAN**

##### **5.01. Common Shares Issued**

Upon the award of Common Shares pursuant to a Share Award, an Other Equity-Based Award or in settlement of an award of Performance Units, the Company may deliver to the Participant Common Shares from its treasury shares or authorized but unissued Common Shares. Upon the exercise of any Option, SAR or Other Equity-Based Award denominated in Common Shares, the Company may deliver to the Participant (or the Participant's broker if the Participant so directs), Common Shares from its treasury shares or authorized but unissued Common Shares.



## 5.02. **Aggregate Limit**

(a) The maximum aggregate number of Common Shares that may be issued under this Plan pursuant to the exercise of Options and SARs, the grant of Share Awards or Other Equity-Based Awards and the settlement of Performance Units is equal to 565,359 Common Shares. Other Equity-Based Awards that are LTIP Units shall reduce the maximum aggregate number of Common Shares that may be issued under this Plan on a one-for-one basis, *i.e.*, each such unit shall be treated as an award of Common Shares.

(b) The maximum number of Common Shares that may be issued under this Plan in accordance with Section 5.02(a) shall be subject to adjustment as provided in Article XI.

(c) The maximum number of Common Shares that may be issued upon the exercise of Options that are incentive stock options or Corresponding SARs that are related to incentive stock options shall be determined in accordance with Sections 5.02(a) and 5.02(b).

## 5.03. **Reallocation of Shares**

If any award or grant under the Plan (including LTIP Units) expires, is forfeited or is terminated without having been exercised or is paid in cash without delivery of Common Shares, then any Common Shares covered by such lapsed, cancelled, expired, unexercised or cash-settled portion of such award or grant and any forfeited, lapsed, cancelled or expired LTIP Units shall be available for the grant of other Options, SARs, Share Awards, Other Equity-Based Awards and settlement of Performance Units under this Plan. Any Common Shares tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any award shall reduce the number of Common Shares available under the Plan and shall not be available for future grants or awards. If Common Shares are issued in settlement of an SAR, the number of Common Shares available under the Plan shall be reduced by the number of Common Shares for which the SAR was exercised rather than the number of Common Shares issued in settlement of the SAR. To the extent permitted by applicable law or the rules of any exchange on which the Common Shares are listed for trading, Common Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any Affiliate shall not reduce the number of Common Shares available for issuance under the Plan. Notwithstanding the provisions of this Section 5.03, no Common Shares may be subject to an Option or granted or awarded if such action would cause an Option intended to be an incentive stock option to fail to qualify as such.

**ARTICLE VI**  
**OPTIONS**

**6.01. Award**

In accordance with the provisions of Article IV, the Committee will designate each individual to whom an Option is to be granted and will specify the number of Common Shares covered by such awards.

**6.02. Option Price**

The price per Common Share purchased on the exercise of an Option shall be determined by the Committee on the date of grant, but shall not be less than the Fair Market Value on the date the Option is granted. Notwithstanding the preceding sentence, the price per Common Share purchased on the exercise of any Option that is an incentive stock option granted to an individual who is a Ten Percent Shareholder on the date such option is granted, shall not be less than one hundred ten percent (110%) of the Fair Market Value on the date the Option is granted. Except as provided in Article XI, the price per share of an outstanding Option may not be reduced (by amendment, cancellation and new grant or otherwise) without the approval of shareholders.

**6.03. Maximum Option Period**

The maximum period in which an Option may be exercised shall be determined by the Committee on the date of grant except that no Option shall be exercisable after the expiration of ten years from the date such Option was granted. In the case of an incentive stock option granted to a Participant who is a Ten Percent Shareholder on the date of grant, such Option shall not be exercisable after the expiration of five years from the date of grant. The terms of any Option may provide that it is exercisable for a period less than such maximum period.

**6.04. Nontransferability**

Except as provided in Section 6.05, each Option granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. In the event of any transfer of an Option (by the Participant or his transferee), the Option and any Corresponding SAR that relates to such Option must be transferred to the same person or persons or entity or entities. Except as provided in Section 6.05, during the lifetime of the Participant to whom the Option is granted, the Option may be exercised only by the Participant. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

#### **6.05. Transferable Options**

Section 6.04 to the contrary notwithstanding, if the Agreement provides, an Option that is not an incentive stock option may be transferred by a Participant to the Participant's children, grandchildren, spouse, one or more trusts for the benefit of such family members or a partnership in which such family members are the only partners, on such terms and conditions as may be permitted under Rule 16b-3 under the Exchange Act as in effect from time to time. The holder of an Option transferred pursuant to this Section shall be bound by the same terms and conditions that governed the Option during the period that it was held by the Participant; provided, however, that such transferee may not transfer the Option except by will or the laws of descent and distribution. In the event of any transfer of an Option (by the Participant or his transferee), the Option and any Corresponding SAR that relates to such Option must be transferred to the same person or persons or entity or entities. Notwithstanding the foregoing, an Option may not be transferred for consideration absent shareholder approval.

#### **6.06. Employee Status**

For purposes of determining the applicability of Section 422 of the Code (relating to incentive stock options), or in the event that the terms of any Option provide that it may be exercised only during employment or continued service or within a specified period of time after termination of employment or continued service, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary disability, or other reasons shall not be deemed interruptions of continuous employment or service.

#### **6.07. Exercise**

Subject to the provisions of this Plan and the applicable Agreement, an Option may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine; provided, however, that incentive stock options (granted under the Plan and all plans of the Company and its Affiliates) may not be first exercisable in a calendar year for Common Shares having a Fair Market Value (determined as of the date an Option is granted) exceeding \$100,000. An Option granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the Option could be exercised. A partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan and the applicable Agreement with respect to the remaining shares subject to the Option. The exercise of an Option shall result in the termination of any Corresponding SAR to the extent of the number of shares with respect to which the Option is exercised.

#### **6.08. Payment**

Subject to rules established by the Committee and unless otherwise provided in an Agreement, payment of all or part of the Option price may be made in cash, certified check, by tendering Common Shares, by attestation of ownership of Common Shares, by a broker-assisted

cashless exercise or in such other form or manner acceptable to the Committee. If Common Shares are used to pay all or part of the Option price, the sum of the cash and cash equivalent and the Fair Market Value (determined as of the day preceding the date of exercise) of the shares surrendered or other consideration paid must not be less than the Option price of the shares for which the Option is being exercised.

**6.09. Shareholder Rights**

No Participant shall have any rights as a shareholder with respect to Common Shares subject to an Option until the date of exercise of such Option.

**6.10. Disposition of Shares**

A Participant shall notify the Company of any sale or other disposition of Common Shares acquired pursuant to an Option that was an incentive stock option if such sale or disposition occurs (i) within two years of the grant of an Option or (ii) within one year of the issuance of the Common Shares to the Participant. Such notice shall be in writing and directed to the Secretary of the Company.

**ARTICLE VII**  
**SARS**

**7.01. Award**

In accordance with the provisions of Article IV, the Committee will designate each individual to whom SARs are to be granted and will specify the number of Common Shares covered by such awards. No Participant may be granted Corresponding SARs (under the Plan and all plans of the Company and its Affiliates) that are related to incentive stock options which are first exercisable in any calendar year for Common Shares having an aggregate Fair Market Value (determined as of the date the related Option is granted) that exceeds \$100,000.

**7.02. Maximum SAR Period**

The term of each SAR shall be determined by the Committee on the date of grant, except that no SAR shall have a term of more than ten years from the date of grant. In the case of a Corresponding SAR that is related to an incentive stock option granted to a Participant who is a Ten Percent Shareholder on the date of grant, such Corresponding SAR shall not be exercisable after the expiration of five years from the date of grant. The terms of any SAR may provide that it has a term that is less than such maximum period.

**7.03. Nontransferability**

Except as provided in Section 7.04, each SAR granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. In the event of any

such transfer, a Corresponding SAR and the related Option must be transferred to the same person or persons or entity or entities. Except as provided in Section 7.04, during the lifetime of the Participant to whom the SAR is granted, the SAR may be exercised only by the Participant. No right or interest of a Participant in any SAR shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

#### 7.04. **Transferable SARs**

Section 7.03 to the contrary notwithstanding, if the Agreement provides, an SAR, other than a Corresponding SAR that is related to an incentive stock option, may be transferred by a Participant to the Participant's children, grandchildren, spouse, one or more trusts for the benefit of such family members or a partnership in which such family members are the only partners, on such terms and conditions as may be permitted under Rule 16b-3 under the Exchange Act as in effect from time to time. The holder of an SAR transferred pursuant to this Section shall be bound by the same terms and conditions that governed the SAR during the period that it was held by the Participant; provided, however, that such transferee may not transfer the SAR except by will or the laws of descent and distribution. In the event of any transfer of a Corresponding SAR (by the Participant or his transferee), the Corresponding SAR and the related Option must be transferred to the same person or person or entity or entities. Notwithstanding the foregoing, in no event may an SAR be transferred for consideration absent shareholder approval.

#### 7.05. **Exercise**

Subject to the provisions of this Plan and the applicable Agreement, an SAR may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine; provided, however, that a Corresponding SAR that is related to an incentive stock option may be exercised only to the extent that the related Option is exercisable and only when the Fair Market Value exceeds the option price of the related Option. An SAR granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the SAR could be exercised. A partial exercise of an SAR shall not affect the right to exercise the SAR from time to time in accordance with this Plan and the applicable Agreement with respect to the remaining shares subject to the SAR. The exercise of a Corresponding SAR shall result in the termination of the related Option to the extent of the number of shares with respect to which the SAR is exercised.

#### 7.06. **Employee Status**

If the terms of any SAR provide that it may be exercised only during employment or continued service or within a specified period of time after termination of employment or continued service, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary disability or other reasons shall not be deemed interruptions of continuous employment or service.

7.07. **Settlement**

At the Committee's discretion, the amount payable as a result of the exercise of an SAR may be settled in cash, Common Shares, or a combination of cash and Common Shares. No fractional share will be deliverable upon the exercise of an SAR but a cash payment will be made in lieu thereof.

7.08. **Shareholder Rights**

No Participant shall, as a result of receiving an SAR, have any rights as a shareholder of the Company or any Affiliate until the date that the SAR is exercised and then only to the extent that the SAR is settled by the issuance of Common Shares. Notwithstanding the foregoing, the Committee may provide in an Agreement that the holder of an SAR is entitled to Dividend Equivalents during the period beginning on the date of the award and ending on the date the SAR is exercised.

**ARTICLE VIII**  
**SHARE AWARDS**

8.01. **Award**

In accordance with the provisions of Article IV, the Committee will designate each individual to whom a Share Award is to be made and will specify the number of Common Shares covered by such awards.

8.02. **Vesting**

The Committee, on the date of the award, may prescribe that a Participant's rights in a Share Award shall be forfeitable or otherwise restricted for a period of time or subject to such conditions as may be set forth in the Agreement. By way of example and not of limitation, the Committee may prescribe that a Participant's rights in a Share Award shall be forfeitable or otherwise restricted subject to the attainment of objectives stated with reference to the Company's, an Affiliate's or a business unit's attainment of objectives stated with respect to performance criteria established by the Committee.

8.03. **Employee Status**

In the event that the terms of any Share Award provide that shares may become transferable and nonforfeitable thereunder only after completion of a specified period of employment or continuous service, the Committee may decide in each case to what extent leaves of absence for governmental or military service, illness, temporary disability, or other reasons shall not be deemed interruptions of continuous employment or service.

#### **8.04. Shareholder Rights**

Unless otherwise specified in accordance with the applicable Agreement, while the Common Shares granted pursuant to the Share Award may be forfeited or are nontransferable, a Participant will have all rights of a stockholder with respect to a Share Award, including the right to receive dividends and vote the shares; provided, however, that during such period (i) a Participant may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of shares granted pursuant to a Share Award, (ii) the Company shall retain custody of the certificates evidencing shares granted pursuant to a Share Award, and (iii) the Participant will deliver to the Company a stock power, endorsed in blank, with respect to each Share Award. The limitations set forth in the preceding sentence shall not apply after the shares granted under the Share Award are transferable and are no longer forfeitable.

### **ARTICLE IX PERFORMANCE UNIT AWARDS**

#### **9.01. Award**

In accordance with the provisions of Article IV, the Committee will designate each individual to whom an award of Performance Units is to be made and will specify the number of Common Shares or other securities or property covered by such awards. The Committee also will specify whether Dividend Equivalent Rights are granted in conjunction with the Performance Units.

#### **9.02. Earning the Award**

The Committee, on the date of the grant of an award, shall prescribe that the Performance Units will be earned, and the Participant will be entitled to receive payment pursuant to the award of Performance Units, only upon the satisfaction of performance objectives and such other criteria as may be prescribed by the Committee.

#### **9.03. Payment**

In the discretion of the Committee, the amount payable when an award of Performance Units is earned may be settled in cash, by the issuance of Common Shares, by the delivery of other securities or property or a combination thereof. A fractional Common Share shall not be deliverable when an award of Performance Units is earned, but a cash payment will be made in lieu thereof. The amount payable when an award of Performance Units is earned shall be paid in a lump sum.

#### **9.04. Shareholder Rights**

A Participant, as a result of receiving an award of Performance Units, shall not have any rights as a shareholder until, and then only to the extent that, the award of Performance Units is

earned and settled in Common Shares. After an award of Performance Units is earned and settled in Common Shares, a Participant will have all the rights of a shareholder as described in Section 8.05.

**9.05. Nontransferability**

Except as provided in Section 9.06, Performance Units granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. No right or interest of a Participant in any Performance Units shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

**9.06. Transferable Performance Units**

Section 9.05 to the contrary notwithstanding, if the Agreement provides, an award of Performance Units may be transferred by a Participant to the Participant's children, grandchildren, spouse, one or more trusts for the benefit of such family members or a partnership in which such family members are the only partners, on such terms and conditions as may be permitted under Rule 16b-3 under the Exchange Act as in effect from time to time. The holder of Performance Units transferred pursuant to this Section shall be bound by the same terms and conditions that governed the Performance Units during the period that they were held by the Participant; provided, however that such transferee may not transfer Performance Units except by will or the laws of descent and distribution. Notwithstanding the foregoing, in no event may a Performance Unit be transferred for consideration absent shareholder approval.

**9.07. Employee Status**

In the event that the terms of any Performance Unit award provide that no payment will be made unless the Participant completes a stated period of employment or continued service, the Committee may decide to what extent leaves of absence for government or military service, illness, temporary disability, or other reasons shall not be deemed interruptions of continuous employment or service.



**ARTICLE X**  
**OTHER EQUITY—BASED AWARDS**

**10.01. Award**

In accordance with the provisions of Article IV, the Committee will designate each individual to whom an Other Equity-Based Award is to be made and will specify the number of Common Shares or other equity interests (including LTIP Units) covered by such awards; provided, however, that the grant of LTIP Units must satisfy the requirements of the partnership agreement of the Operating Partnership as in effect on the date of grant. The Committee also will specify whether Dividend Equivalent Rights are granted in conjunction with the Other Equity-Based Award.

**10.02. Terms and Conditions**

The Committee, at the time an Other Equity-Based Award is made, shall specify the terms and conditions which govern the award. The terms and conditions of an Other Equity-Based Award may prescribe that a Participant's rights in the Other Equity-Based Award shall be forfeitable, nontransferable or otherwise restricted for a period of time or subject to such other conditions as may be determined by the Committee, in its discretion and set forth in the Agreement. Other Equity-Based Awards may be granted to Participants, either alone or in addition to other awards granted under the Plan, and Other Equity-Based Awards may be granted in the settlement of other Awards granted under the Plan.

**10.03. Payment or Settlement**

Other Equity-Based Awards valued in whole or in part by reference to, or otherwise based on, Common Shares, shall be payable or settled in Common Shares, cash or a combination of Common Shares and cash, as determined by the Committee in its discretion; provided, however, that any Common Shares that are issued on account of the conversion of LTIP Units into Common Stock shall not be issued under the Plan. Other Equity-Based Awards denominated as equity interests other than Common Shares may be paid or settled in shares or units of such equity interests or cash or a combination of both as determined by the Committee in its discretion.

**10.04. Employee Status**

If the terms of any Other Equity-Based Award provides that it may be earned or exercised only during employment or continued service or within a specified period of time after termination of employment or continued service, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary disability or other reasons shall not be deemed interruptions of continuous employment or service.

#### 10.05. **Shareholder Rights**

A Participant, as a result of receiving an Other Equity-Based Award, shall not have any rights as a shareholder until, and then only to the extent that, the Other Equity-Based Award is earned and settled in Common Shares.

### **ARTICLE XI** **ADJUSTMENT UPON CHANGE IN COMMON STOCK**

The maximum number of Common Shares as to which Options, SARs, Performance Units, Share Awards and Other Equity-Based Awards may be granted and the terms of outstanding Share Awards, Options, SARs, Performance Units and Other Equity-Based Awards shall be adjusted as the Board determines is equitably required in the event that (i) the Company (a) effects one or more nonreciprocal transactions between the Company and its shareholders such as a share dividend, extra-ordinary cash dividend, share split-up, subdivision or consolidation of shares that affects the number or kind of Common Shares (or other securities of the Company) or the Fair Market Value (or the value of other Company securities) and causes a change in the Fair Market Value of the Common Shares subject to outstanding awards or (b) engages in a transaction to which Section 424 of the Code applies or (ii) there occurs any other event which, in the judgment of the Board necessitates such action. Any determination made under this Article XI by the Board shall be nondiscretionary, final and conclusive.

The issuance by the Company of shares of any class, or securities convertible into shares of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the maximum number of shares as to which Options, SARs, Performance Units, Share Awards and Other Equity-Based Awards may be granted or the terms of outstanding Share Awards, Options, SARs, Performance Shares or Other Equity-Based Awards.

The Committee may make Share Awards and may grant Options, SARs, Performance Units or Other Equity-Based Awards in substitution for performance shares, phantom shares, stock awards, stock options, stock appreciation rights, or similar awards held by an individual who becomes an employee of the Company or an Affiliate in connection with a transaction described in the first paragraph of this Article XI. Notwithstanding any provision of the Plan, the terms of such substituted Share Awards, SARs, Other Equity-Based Awards, Options or Performance Units shall be as the Committee, in its discretion, determines is appropriate.

**ARTICLE XII**  
**COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES**

No Option or SAR shall be exercisable, no Common Shares shall be issued, no certificates for Common Shares shall be delivered, and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements), any listing agreement to which the Company is a party, and the rules of all domestic stock exchanges on which the Company's shares may be listed. The Company shall have the right to rely on an opinion of its counsel as to such compliance. Any certificate issued to evidence Common Shares when a Share Award is granted, a Performance Unit or Other Equity-Based Award is settled or for which an Option or SAR is exercised may bear such legends and statements as the Committee may deem advisable to assure compliance with federal and state laws and regulations. No Option or SAR shall be exercisable, no Share Award or Performance Unit shall be granted, no Common Shares shall be issued, no certificate for Common Shares shall be delivered, and no payment shall be made under this Plan until the Company has obtained such consent or approval as the Committee may deem advisable from regulatory bodies having jurisdiction over such matters.

**ARTICLE XIII**  
**GENERAL PROVISIONS**

**13.01. Effect on Employment and Service**

Neither the adoption of this Plan, its operation, nor any documents describing or referring to this Plan (or any part thereof), shall confer upon any individual or entity any right to continue in the employ or service of the Company or an Affiliate or in any way affect any right and power of the Company or an Affiliate to terminate the employment or service of any individual or entity at any time with or without assigning a reason therefor.

**13.02. Unfunded Plan**

This Plan, insofar as it provides for grants, shall be unfunded, and the Company shall not be required to segregate any assets that may at any time be represented by grants under this Plan. Any liability of the Company to any person with respect to any grant under this Plan shall be based solely upon any contractual obligations that may be created pursuant to this Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

**13.03. Rules of Construction**

Headings are given to the articles and sections of this Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

#### 13.04. **Withholding Taxes**

Each Participant shall be responsible for satisfying any income and employment tax withholding obligations attributable to participation in the Plan. Unless otherwise provided by the Agreement, any such withholding tax obligations may be satisfied in cash (including from any cash payable in settlement of an award of Performance Units, SARs or Other Equity-Based Award) or a cash equivalent acceptable to the Committee. Except to the extent prohibited by Treasury Regulation Section 1.409A-3(j), any minimum statutory federal, state, district or city withholding tax obligations also may be satisfied (a) by surrendering to the Company Common Shares previously acquired by the Participant; (b) by authorizing the Company to withhold or reduce the number of Common Shares otherwise issuable to the Participant upon the exercise of an Option or SAR, the settlement of a Performance Unit award or an Other Equity-Based Award (if applicable) or the grant or vesting of a Share Award; or (c) by any other method as may be approved by the Committee. If Common Shares are used to pay all or part of such withholding tax obligation, the Fair Market Value of the shares surrendered, withheld or reduced shall be determined as of the day the tax liability arises and the number of Common Shares which may be withheld or surrendered shall be limited to the number of shares which have a Fair Market Value on the day preceding the date of withholding equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

#### 13.05. **REIT Status**

The Plan shall be interpreted and construed in a manner consistent with the Company's status as a REIT. No award shall be granted or awarded, and with respect to any award granted under the Plan, such award shall not vest, be exercisable or be settled (i) to the extent that the grant, vesting, exercise or settlement could cause the Participant or any other person to be in violation of the common stock ownership limit or aggregate stock ownership limit prescribed by the Company's Articles of Incorporation or Charter, as amended from time to time) or (ii) if, in the discretion of the Committee, the grant, vesting, exercise or settlement of the award could impair the Company's status as a REIT.

### **ARTICLE XIV CHANGE IN CONTROL**

#### 14.01. **Impact of Change in Control**

Upon a Change in Control, the Committee is authorized to cause (i) outstanding Options and SARs to become fully exercisable, (ii) outstanding Share Awards to become transferable and nonforfeitable and (iii) outstanding Performance Units and Other Equity-Based Awards to become earned and nonforfeitable in their entirety.

**14.02. Assumption Upon Change in Control.**

In the event of a Change in Control, the Committee, in its discretion and without the need of a Participant's consent, may provide that an outstanding Option, SAR, Share Award, Performance Unit or Other Equity-Based Award shall be assumed by, or a substitute award granted by, the surviving entity in the Change in Control. Such assumed or substituted award shall be of the same type of award as the original Option, SAR, Share Award, Performance Unit or Other Equity-Based Award being assumed or substituted. The assumed or substituted award shall have a value, as of the Control Change Date, that is substantially equal to the value of the original award (or the difference between the Fair Market Value and the option price or Initial Value in the case of Options and SARs) as the Committee determines is equitably required and such other terms and conditions as may be prescribed by the Committee.

**14.03. Cash-Out Upon Change in Control.**

In the event of a Change in Control, the Committee, in its discretion and without the need of a Participant's consent, may provide that each Option, SAR, Share Award and Performance Unit and Other Equity-Based Award shall be cancelled in exchange for a payment. The payment may be in cash, Common Shares or other securities or consideration received by shareholders in the Change in Control transaction. The amount of the payment shall be an amount that is substantially equal to (i) the amount by which the price per share received by shareholders in the Change in Control exceeds the option price or Initial Value in the case of an Option and SAR, or (ii) the price per share received by shareholders for each Common Share subject to a Share Award, Performance Unit or Other Equity-Based Award or (iii) the value of the other securities or property in which the Performance Unit or Other Equity-Based award is denominated. If the option price or Initial Value exceeds the price per share received by shareholders in the Change in Control transaction, the Option or SAR may be cancelled under this Section 14.03 without any payment to the Participant.

**14.04. Limitation of Benefits**

The benefits that a Participant may be entitled to receive under this Plan and other benefits that a Participant is entitled to receive under other plans, agreements and arrangements (which, together with the benefits provided under this Plan, are referred to as "Payments"), may constitute Parachute Payments that are subject to Code Sections 280G and 4999. As provided in this Section 14.04, the Parachute Payments will be reduced pursuant to this Section 14.04 if, and only to the extent that, a reduction will allow a Participant to receive a greater Net After Tax Amount than a Participant would receive absent a reduction.

The Accounting Firm will first determine the amount of any Parachute Payments that are payable to a Participant. The Accounting Firm also will determine the Net After Tax Amount attributable to the Participant's total Parachute Payments.

The Accounting Firm will next determine the largest amount of Payments that may be made to the Participant without subjecting the Participant to tax under Code Section 4999 (the "Capped Payments"). Thereafter, the Accounting Firm will determine the Net After Tax Amount attributable to the Capped Payments.

The Participant will receive the total Parachute Payments or the Capped Payments, whichever provides the Participant with the higher Net After Tax Amount. If the Participant will receive the Capped Payments, the total Parachute Payments will be adjusted by first reducing the amount of any benefits under this Plan or any other plan, agreement or arrangement that are not subject to Section 409A of the Code (with the source of the reduction to be directed by the Participant) and then by reducing the amount of any benefits under this Plan or any other plan, agreement or arrangement that are subject to Section 409A of the Code (with the source of the reduction to be directed by the Participant) in a manner that results in the best economic benefit to the Participant (or, to the extent economically equivalent, in a pro rata manner). The Accounting Firm will notify the Participant and the Company if it determines that the Parachute Payments must be reduced to the Capped Payments and will send the Participant and the Company a copy of its detailed calculations supporting that determination.

As a result of the uncertainty in the application of Code Sections 280G and 4999 at the time that the Accounting Firm makes its determinations under this Article XIV, it is possible that amounts will have been paid or distributed to the Participant that should not have been paid or distributed under this Section 14.04 ("Overpayments"), or that additional amounts should be paid or distributed to the Participant under this Section 14.04 ("Underpayments"). If the Accounting Firm determines, based on either the assertion of a deficiency by the Internal Revenue Service against the Company or the Participant, which assertion the Accounting Firm believes has a high probability of success or controlling precedent or substantial authority, that an Overpayment has been made, the Participant must repay to the Company, without interest; provided, however, that no loan will be deemed to have been made and no amount will be payable by the Participant to the Company unless, and then only to the extent that, the deemed loan and payment would either reduce the amount on which the Participant is subject to tax under Code Section 4999 or generate a refund of tax imposed under Code Section 4999. If the Accounting Firm determines, based upon controlling precedent or substantial authority, that an Underpayment has occurred, the Accounting Firm will notify the Participant and the Company of that determination and the amount of that Underpayment will be paid to the Participant promptly by the Company.

For purposes of this Section 14.04, the term "Accounting Firm" means the independent accounting firm engaged by the Company immediately before the Control Change Date. For purposes of this Article XIV, the term "Net After Tax Amount" means the amount of any Parachute Payments or Capped Payments, as applicable, net of taxes imposed under Code Sections 1, 3101(b) and 4999 and any State or local income taxes applicable to the Participant on the date of payment. The determination of the Net After Tax Amount shall be made using the highest combined effective rate imposed by the foregoing taxes on income of the same character as the Parachute Payments or Capped Payments, as applicable, in effect on the date of payment.

For purposes of this Section 14.04, the term “Parachute Payment” means a payment that is described in Code Section 280G(b)(2), determined in accordance with Code Section 280G and the regulations promulgated or proposed thereunder.

Notwithstanding any other provision of this Section 14.04, the limitations and provisions of this Section 14.04 shall not apply to any Participant who, pursuant to an agreement with the Company or the terms of another plan maintained by the Company, is entitled to indemnification for any liability that the Participant may incur under Code Section 4999. In addition, nothing in this Section 14.04 shall limit or otherwise supersede the provisions of any other agreement or plan which provides that a Participant cannot receive Payments in excess of the Capped Payments.

**ARTICLE XV**  
**AMENDMENT**

The Board may amend or terminate this Plan at any time; provided, however, that no amendment may adversely impair the rights of Participants with respect to outstanding awards. In addition, an amendment will be contingent on approval of the Company’s shareholders if such approval is required by law or the rules of any exchange on which the Common Shares are listed or if the amendment would materially increase the benefits accruing to Participants under the Plan, materially increase the aggregate number of Common Shares that may be issued under the Plan or materially modify the requirements as to eligibility for participation in the Plan.

**ARTICLE XVI**  
**DURATION OF PLAN**

No Share Award, Performance Unit Award, Option, SAR or Other Equity-Based Award may be granted under this Plan after the day before the tenth anniversary of the date that the Plan is adopted by the Board. Share Awards, Performance Unit awards, Options, SARs and Other Equity-Based Awards granted before such date shall remain valid in accordance with their terms.

**ARTICLE XVII**  
**EFFECTIVE DATE OF PLAN**

Options, Share Awards, Performance Units and Other Equity-Based Awards may be granted under this Plan on and after the later of (i) the Completion Date and (ii) the date that the Plan is adopted by the Board, provided that, this Plan shall not be effective unless, within twelve months after the Board’s adoption of the Plan, the Plan is approved by holders of a majority of the outstanding Common Shares entitled to vote and present or represented by properly executed and delivered proxies at a duly held shareholders’ meeting at which a quorum is present or by unanimous consent of the shareholders, within twelve months before or after the date that the Plan is adopted by the Board and provided further that no award shall be exercisable, vested or settled until such shareholder approval is obtained.

## CHATHAM LODGING TRUST

## Share Award Agreement

[Executive and Employee Awards]

THIS SHARE AWARD AGREEMENT (the "Agreement"), dated as of the \_\_\_ day of \_\_\_\_\_, 2010, governs the Share Award granted by CHATHAM LODGING TRUST, a Maryland real estate investment trust (the "Company"), to \_\_\_\_\_ (the "Participant"), in accordance with and subject to the provisions of the Company's Equity Incentive Plan (the "Plan"). A copy of the Plan has been made available to the Participant. All terms used in this Agreement that are defined in the Plan have the same meaning given them in the Plan.

1. **Grant of Share Award.** In accordance with the Plan, and effective as of \_\_\_\_\_, 2010 (the "Date of Grant"), the Company granted to the Participant, subject to the terms and conditions of the Plan and this Agreement, a Share Award of \_\_\_\_\_ Common Shares (the "Share Award").

2. **Vesting.** The Participant's interest in the Common Shares covered by the Share Award shall become vested and nonforfeitable to the extent provided in paragraphs (a), (b), (c), (d) and (e) below.

(a) **Continued Employment.** The Participant's interest in one-third of the Common Shares covered by the Share Award shall become vested and nonforfeitable on the first anniversary of the Date of Grant if the Participant remains in the continuous employ of the Company or an Affiliate from the Date of Grant until the first anniversary of the Date of Grant. The Participant's interest in an additional one-third of the Common Shares covered by the Share Award shall become vested and nonforfeitable on the second anniversary of the Date of Grant if the Participant remains in the continuous employ of the Company or an Affiliate from the Date of Grant until the second anniversary of the Date of Grant. The Participant's interest in the remaining one-third of the Common Shares covered by the Share Award shall become vested and nonforfeitable on the third anniversary of the Date of Grant if the Participant remains in the continuous employ of the Company or an Affiliate from the Date of Grant until the third anniversary of the Date of Grant.

(b) **Change in Control.** The Participant's interest in all of the Common Shares covered by the Share Award (if not sooner vested), shall become vested and nonforfeitable on a Control Change Date if the Participant remains in the continuous employ of the Company or an Affiliate from the Date of Grant until the Control Change Date.

(c) **Death or Disability.** The Participant's interest in all of the Common Shares covered by the Share Award (if not sooner vested), shall become vested and nonforfeitable on the date that the Participant's employment by the Company and its Affiliates

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ends if (i) such employment ends on account of the Participant's death or because the Participant is "disabled" (as defined in Code section 409A(a)(2)(c)) and (ii) the Participant remains in the continuous employ of the Company or an Affiliate from the Date of Grant until the date such employment ends on account of the Participant's death or because the Participant is disabled.

**(d) Termination of Employment Without Cause.** The Participant's interest in all of the Common Shares covered by the Share Award (if not sooner vested), shall become vested and nonforfeitable on the date that the Participant's employment by the Company and its Affiliates ends if (i) such employment is terminated by the Company or an Affiliate without Cause and (ii) the Participant remains in the continuous employ of the Company or an Affiliate from the Date of Grant until the date such employment ends on account of a termination by the Company or an Affiliate without Cause. For purposes of this Agreement, a termination of the Participant's employment with the Company or an Affiliate is with Cause if such employment is terminated by action of the Board on account of (w) the Participant's failure to perform a material duty or the Participant's material breach of an obligation under an agreement with the Company or a breach of a material and written Company policy other than by reason of mental or physical illness or injury, (x) the Participant's breach of a fiduciary duty to the Company, (y) the Participant's conduct that is demonstrably and materially injurious to the Company, materially or otherwise or (z) the Participant's conviction of, or plea of *nolo contendere* to, a felony or crime involving moral turpitude or fraud or dishonesty involving assets of the Company and that in all cases is described in a written notice from the Board and that is not cured, to the reasonable satisfaction of the Board, within thirty (30) days after such notice is received by the Participant.

**(e) Resignation With Good Reason.** The Participant's interest in all of the Common Shares covered by the Share Award (if not sooner vested) shall become vested and nonforfeitable on the date that the Participant's employment by the Company and its Affiliates ends if (i) such employment is terminated by the Participant with Good Reason and (ii) the Participant remains in the continuous employ of the Company or an Affiliate from the Date of Grant until the date such employment ends on account of the Participant's resignation with Good Reason. For purposes of this Agreement, the Participant's resignation is with Good Reason if the Participant resigns on account of (w) the Company's material breach of an agreement with the Participant or a direction from the Board that the Participant act or refrain from acting which in either case would be unlawful or contrary to a material and written Company policy, (x) a material diminution in the Participant's duties, functions and responsibilities to the Company and its Affiliates without the Participant's consent or the Company preventing the Participant from fulfilling or exercising the Participant's material duties, functions and responsibilities to the Company and its Affiliates without the Participant's consent, (y) a material reduction in the Participant's base salary or annual bonus opportunity or (z) a requirement that the Participant relocate the Participant's employment more than fifty (50) miles from the location of the Participant's principal office on the Date of Grant, without the consent of the Participant. The Participant's resignation shall not be a resignation with Good Reason unless the Participant gives the Board written notice (delivered within thirty (30) days after the Participant knows of the event, action, etc. that the Participant asserts constitutes Good Reason), the event, action, etc. that the Participant asserts constitutes Good Reason is not cured, to the reasonable satisfaction of the Participant, within thirty (30) days after such notice and the Participant resigns effective not later than thirty (30) days after the expiration of such cure period.

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Except as provided in this Section 2, any Common Shares covered by the Share Award that are not vested and nonforfeitable on or before the date that the Participant's employment by the Company and its Affiliates ends shall be forfeited on the date that such employment terminates.

3. Transferability. Common Shares covered by the Share Award that have not become vested and nonforfeitable as provided in Section 2 cannot be transferred. Common Shares covered by the Share Award may be transferred, subject to the requirements of applicable securities laws, after they become vested and nonforfeitable as provided in Section 2.

4. Shareholder Rights. On and after the Date of Grant and prior to their forfeiture, the Participant shall have all of the rights of a shareholder of the Company with respect to the Common Shares covered by the Share Award, including the right to vote the shares and to receive, free of all restrictions, all dividends declared and paid on the shares. Notwithstanding the preceding sentence, the Company shall retain custody of the certificates evidencing the Common Shares covered by the Share Award until the date that the Common Shares become vested and nonforfeitable and the Participant hereby appoints the Company's Secretary as the Participant's attorney in fact, with full power of substitution, with the power to transfer to the Company and cancel any Common Shares covered by the Share Award that are forfeited under Section 2.

5. No Right to Continued Employment. This Agreement and the grant of the Share Award does not give the Participant any rights with respect to continued employment by the Company or an Affiliate. This Agreement and the grant of the Share Award shall not interfere with the right of the Company or an Affiliate to terminate the Participant's employment.

6. Governing Law. This Agreement shall be governed by the laws of the State of \_\_\_\_\_ except to the extent that \_\_\_\_\_ law would require the application of the laws of another State.

7. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and this Agreement, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the Date of Grant.

8. Participant Bound by Plan. The Participant hereby acknowledges that a copy of the Plan has been made available to the Participant and the Participant agrees to be bound by all the terms and provisions of the Plan.

9. Binding Effect. Subject to the limitations stated above and in the Plan, this Agreement shall be binding upon the Participant and the Participant's successors in interest and the Company and any successors of the Company.

*[signature page follows]*

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IN WITNESS WHEREOF, the Company and the Participant have executed this Agreement as of the date first set forth above.

CHATHAM LODGING TRUST

[NAME OF PARTICIPANT]

By: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_

AGREEMENT OF PURCHASE

AND SALE

dated as of May 18, 2010

between

The parties designated on Exhibit A,

as Sellers,

and

CHATHAM LODGING TRUST,  
a Maryland real estate investment trust

as Purchaser

Residence Inn  
White Plains, New York

Hampton Inn & Suites  
Medical Center  
Houston, Texas

Courtyard by Marriott  
Altoona, Pennsylvania

Springhill Suites  
Washington, Pennsylvania

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**TABLE OF CONTENTS**

	Page No.
ARTICLE 1 DEFINITIONS; RULES OF CONSTRUCTION	1
1.1 Definitions	1
1.2 Rules of Construction	6
ARTICLE 2 PURCHASE AND SALE; DEPOSIT; PAYMENT OF PURCHASE PRICE	6
2.1 Purchase and Sale	6
2.2 Deposit	6
2.3 Study Period	7
2.4 Payment of Purchase Price	8
2.5 Assumption of Assumed Loans	9
2.6 Allocation of Purchase Price	9
ARTICLE 3 SELLERS' REPRESENTATIONS, WARRANTIES AND COVENANTS	10
3.1 Organization and Power	10
3.2 Authorization and Execution	10
3.3 Noncontravention	10
3.4 No Special Taxes	10
3.5 Compliance with Existing Laws	10
3.6 Operative Agreements	11
3.7 Warranties and Guaranties	11
3.8 Insurance	11
3.9 Condemnation Proceedings; Roadways	11
3.10 Litigation	11
3.11 Labor Disputes and Agreements	11
3.12 Financial Information	12
3.13 Operation of Property	12
3.14 Personal Property	12
3.15 Bankruptcy	13
3.16 Brokers	13
3.17 Hazardous Substances	13
3.18 License	13
3.19 Independent Audit	13
3.20 Bulk Sale Compliance	14
3.21 Liquor License	14
3.22 Management Agreements	14
3.23 Courtyard Ground Lease	14
3.24 Residence Inn Condominium Documentation	14
3.25 Money Laundering	14
ARTICLE 4 PURCHASER'S REPRESENTATIONS, WARRANTIES AND COVENANTS	15

	Page No.
4.1 Organization and Power	16
4.2 Noncontravention	16
4.3 Litigation	16
4.4 Bankruptcy	16
4.5 No Brokers	16
4.6 Money Laundering	16
4.7 AS IS, WHERE IS	17
ARTICLE 5 CONDITIONS AND ADDITIONAL COVENANTS	19
5.1 Conditions to Purchaser's Obligations	19
5.2 Conditions to Seller's Obligations	21
ARTICLE 6 CLOSING	22
6.1 Closing	22
6.2 Sellers' Deliveries	23
6.3 Purchaser's Deliveries	25
6.4 Closing Costs	25
6.5 Income and Expense Allocations	25
ARTICLE 7 CONDEMNATION; RISK OF LOSS	27
7.1 Condemnation	27
7.2 Risk of Loss	27
ARTICLE 8 LIABILITY OF PURCHASER; LIABILITY OF SELLER; TERMINATION RIGHTS	27
8.1 Liability of Purchaser and Seller	27
8.2 Intentionally Deleted	27
8.3 Termination by Purchaser	27
8.4 Termination by Seller	28
ARTICLE 9 MISCELLANEOUS PROVISIONS	28
9.1 Completeness; Modification	28
9.2 Assignments	28
9.3 Successors and Assigns	28
9.4 Days	28
9.5 Governing Law	28
9.6 Counterparts	28
9.7 Severability	29
9.8 Costs	29
9.9 Notices	29
9.10 Incorporation by Reference	30
9.11 Survival	30
9.12 Further Assurances	30
9.13 No Partnership	30
9.14 Time of Essence	30
9.15 Confidentiality	30
9.16 No Third-Party Beneficiary	30

---

9.17 Waiver of Jury Trial	Page No.	30
9.18 Title Company		31
9.19 Related Transaction		32

#### **LIST OF EXHIBITS**

Exhibit A	—	Sellers and Properties
Exhibit B	—	Legal Descriptions of Land
Exhibit C	—	Intentionally Deleted
Exhibit D	—	Insurance Policies
Exhibit E	—	Operative Agreements
Exhibit F	—	Assumed Loans
Exhibit G	—	Allocation of Purchase Price
Exhibit H	—	Existing Warranties and Guaranties
Exhibit I	—	Courtyard Management Agreement
Exhibit J	—	Springhill Suites Management Agreement
Exhibit K	—	Courtyard Ground Lease

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AGREEMENT OF PURCHASE AND SALE

THIS AGREEMENT OF PURCHASE AND SALE ("Agreement"), dated as of the 18th day of May, 2010, between each of the parties named on Exhibit A hereto (each, individually, a "Seller" and, collectively, acting together jointly and severally, the "Sellers"), and CHATHAM LODGING TRUST, a Maryland real estate investment trust (the "Purchaser"), provides:

**ARTICLE 1**  
**DEFINITIONS; RULES OF CONSTRUCTION**

1.1 Definitions.

The following terms shall have the indicated meanings:

"Act of Bankruptcy" means if a party hereto shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its Property, (b) admit in writing its inability to pay its debts as they become due, (c) make a general assignment for the benefit of its creditors, (d) file a voluntary petition or commence a voluntary case or proceeding under the Federal Bankruptcy Code (as now or hereafter in effect), (e) be adjudicated a bankrupt or insolvent, (f) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, (g) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case or proceeding under the Federal Bankruptcy Code (as now or hereafter in effect), or (h) take any limited liability company, trust or corporate action for the purpose of effecting any of the foregoing; or if a proceeding or case shall be commenced, without the application or consent of a party hereto, in any court of competent jurisdiction seeking (1) the liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of debts, of such party, (2) the appointment of a receiver, custodian, trustee or liquidator of such party or all or any substantial part of its assets, or (3) other similar relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case shall continue undismissed; or an order (including an order for relief entered in an involuntary case under the Federal Bankruptcy Code, as now or hereafter in effect) judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of sixty (60) consecutive days.

"Additional Deposit" has the meaning set forth in Section 2.2.

"Agreement" has the meaning set forth in the Preamble hereto.

"Assignment and Assumption Agreement" means, with respect to each Property, the assignment and assumption agreement whereby the applicable Seller assigns and the Purchaser assumes the Operative Agreements, in such form and substance as Purchaser and Sellers shall mutually agree.

"Assumed Loan" means any loan identified on Exhibit F hereto.

"Assumption Application" has the meaning set forth in Section 2.5.

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“Assumption Fee” has the meaning set forth in Section 2.5.

“Authorizations” means, with respect to each Property, all licenses, permits and approvals required by any governmental or quasi-governmental agency, body or officer for the ownership, operation and use of such Property or any part thereof.

“Bill of Sale (Inventory)” means, with respect to each Property, the bill of sale conveying title to the Inventory to the Purchaser’s property manager, lessee or designee, in such form and substance as Purchaser and Sellers shall mutually agree.

“Bill of Sale (Personal Property)” means, with respect to each Property, the bill of sale conveying title to the Tangible Personal Property, and Intangible Personal Property, to the extent assignable, from the Seller to the Purchaser.

“Building Codes” has the meaning set forth in Section 4.7.

“Closing” means a consummation of a purchase and sale of a Property pursuant to this Agreement.

“Closing Date” means the date on which a Closing occurs, but in no event later than the dates identified in Section 6.1.

“Commission” has the meaning set forth in Section 3.19.

“Courtyard” means the Courtyard by Marriott located in Altoona, Pennsylvania, as further identified on Exhibit A.

“Courtyard Ground Lease” means that certain Agreement of Lease by and between Blair County Convention Center & Sports Facilities Authority and Moody National CY Altoona PA, LLC, dated as of December 20, 2000, pursuant to which Moody National CY Altoona PA, LLC leases the Land on which the Courtyard is located.

“Courtyard Management Agreement” means that certain Management Agreement by and between Concord Hospitality Enterprises Company and Moody National CY Altoona PA, LLC, dated as of August 31, 2007 respecting the management of the Courtyard.

“Deed” means, with respect to the Hampton Inn, Residence Inn and Springhill Suites, a special warranty deed conveying title to the Real Property from the applicable Seller to the Purchaser, subject only to Permitted Title Exceptions, taxes not yet due and payable and matters identified by the applicable Survey, in such form and substance as Purchaser and Sellers shall mutually agree.

“Deposit” has the meaning set forth in Section 2.2.

“Environmental Conditions” has the meaning set forth in Section 4.7.

“Executive Order” has the meaning set forth in Section 3.25.

“FIRPTA Certificate” means the affidavit of each Seller conveying Real Property under Section 1445 of the Internal Revenue Code certifying that such Seller is not a foreign corporation, foreign partnership, foreign trust, foreign estate or foreign person (as those terms are defined in the Internal Revenue Code and the Income Tax Regulations), in such form and substance as Purchaser and Sellers shall mutually agree.

“Financial Information” has the meaning set forth in Section 3.12.

“Governmental Body” means any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign.

“Government List” has the meaning set forth in Section 3.25.

“Hampton Inn” means the Hampton Inn & Suites located in Houston, Texas, as further identified on Exhibit A.

“Hazardous Substances” has the meaning set forth in Section 3.17.

“Hotel” means each hotel named on Exhibit A hereto individually and the related amenities and appurtenances thereto.

“Improvements” means, with respect to each Property, the Hotel and all other buildings, improvements, fixtures and other items of real estate located on the Land.

“Initial Deposit” has the meaning set forth in Section 2.2.

“Insurance Policies” means those certain policies of insurance described on Exhibit D attached hereto.

“Intangible Personal Property” means, with respect to each Property, all intangible personal property owned by the Seller and used in connection with the ownership, operation, leasing, occupancy or maintenance of the Property, including, without limitation, the right to use the trade name associated with such Property and all variations thereof, the Authorizations, escrow accounts, insurance policies, general intangibles, business records, plans and specifications, surveys and title insurance policies pertaining to the Real Property and the Personal Property, all licenses, permits and approvals with respect to the construction, ownership, operation, leasing, occupancy or maintenance of the Property, any unpaid award for taking by condemnation or any damage to the Land by reason of a change of grade or location of or access to any street or highway, and the share of the Tray Ledger determined under Section 6.5, excluding (a) any of the aforesaid rights the Purchaser elects not to acquire, (b) the Seller’s cash on hand, in bank accounts and invested with financial institutions and (c) accounts receivable except for the above described share of the Tray Ledger.

“Inventory” means, with respect to each Property, all inventory located at the Hotel and owned by Seller, including without limitation, all mattresses, pillows, bed linens, towels, paper goods, soaps, cleaning supplies and other such supplies.

“Knowledge” shall mean the actual knowledge of Brett C. Moody after discussions with each of the managers of the Hotels, without any other duty of inquiry or investigation. For the purposes of this definition, the term “actual knowledge” means, with respect to any person, the conscious awareness of such person at the time in question, and expressly excludes any constructive or implied knowledge of such person.

“Land” means, with respect to each Property, the land legally described on Exhibits B-1 through B-4 attached hereto, together with all easements, rights, privileges, remainders, reversions and appurtenances thereunto belonging or in any way appertaining, and all of the estate, right, title, interest, claim or demand whatsoever of the Seller therein, in the streets and ways adjacent thereto and in the beds thereof, either at law or in equity, in possession or expectancy, now or hereafter acquired.

“License” has the meaning set forth in Section 3.18.

“Licensor” shall mean Marriott International, Inc.

“Loan Assumption” has the meaning set forth in Section 2.5.

“Loan Documents” has the meaning set forth in Section 2.5.

“Operative Agreements” means, with respect to each Property, service contracts, supply contracts, leases and other agreements, if any, in effect with respect to the construction, ownership, operation, occupancy or maintenance of the Property.

“Owner’s Title Policy” means, with respect to each Property, an owner’s policy of title insurance issued to the Purchaser by the Title Company, pursuant to which the Title Company insures the Purchaser’s ownership of fee simple title to the Real Property (including the marketability thereof) subject only to Permitted Title Exceptions. The Owner’s Title Policy shall insure the Purchaser in the amount of the Purchase Price allocated to each Property and shall be acceptable in form and substance to the Purchaser. The description of the Land in the Owner’s Title Policy shall be by metes and bounds and shall be identical to the description shown on the Survey.

“Permitted Title Exceptions” means, with respect to each Property, those exceptions to title to the Real Property that are satisfactory to the Purchaser as determined pursuant to Section 2.3.

“PIP” has the meaning set forth in Section 5.18.

“Property” means, with respect to each Seller, collectively the Real Property, the Inventory, the Tangible Personal Property and the Intangible Personal Property owned by such Seller.

“Properties” means, collectively, the Property of the Sellers.

“Purchase Price” means Sixty One Million and No/Dollars (\$61,000,000).

“Purchaser” has the meaning set forth in the Preamble hereto.

“Real Property” means, with respect to each Property, the Land and the Improvements.

“Residence Inn” means the Residence Inn located in White Plains, New York, as further identified on Exhibit A.

“Residence Inn Condominium Documentation” means the documentation relating to the establishment or operation of the Residence Inn as a condominium regime.

“Residence Inn Unit Leases” means those certain Amended and Restated Lease Agreements for Units 306, 506, 910 and 1004 in La Reserve Condominium by and between Moody National White Plains MT, LLC and the owners of said units for the use in the operation of the Residence Inn.

“Seller” has the meaning set forth in the Preamble hereto.

“Sellers” has the meaning set forth in the Preamble hereto.

“Seller’s Organizational Documents” means, with respect to each Seller, the current limited liability company agreement and certificate of formation of such Seller.

“Springhill Suites” means the Springhill Suites located in Washington, Pennsylvania, as further identified on Exhibit A.

“Springhill Suites Management Agreement” means that certain Management Agreement by and between Concord Hospital Enterprises Company and Moody National CY Altoona PA, LLC, dated as of August 31, 2007 respecting the management of the Springhill Suites.

“Study Period” means the period commencing at 9:00 a.m. on the date following the date hereof, and continuing through 5:00 p.m. on the twenty-first (21<sup>st</sup>) day thereafter, except as otherwise herein provided.

“Survey” means, with respect to each Property, the survey prepared delineating the boundary lines of the Land, location of the Improvements, all rights of way and easements and contiguous public roads, the same prepared for the benefit of and certified to Purchaser and the Title Company. The Survey shall be adequate for the Title Company to delete any exception for general survey matters in the Owner’s Title Policy. If there is a discrepancy between the description of the Land attached hereto as Exhibit B and the description of the Land as shown on the Survey for any Property, the survey shall confirm that the separate property descriptions each identify the Property.

“Survival Period” has the meaning set forth in Section 3.26.

“Tangible Personal Property” means, with respect to each Property, the items of tangible personal Property consisting of all furniture, fixtures and equipment situated on, attached to, or used in the operation of the Hotel, and all furniture, furnishings, equipment, machinery, and other personal property of every kind located on or used in the operation of the Hotel and owned

by the Seller; provided, however, that the Purchaser agrees that, all Inventory shall be conveyed to the Purchaser's property manager for such Hotel.

"Title Company," means Chicago Title Insurance Company, 1129 20<sup>th</sup> Street, NW, Washington, DC 20036.

"Tray Ledger" means, with respect to each Property, the final night's room revenue (revenue from rooms occupied as of 12:01 a.m. on the Closing Date, exclusive of food, beverage, telephone and similar charges which shall be retained by the Seller), including any sales taxes, room taxes or other taxes thereon.

"Utilities" means, with respect to each Property, public sanitary and storm sewers, natural gas, telephone, public water facilities, electrical facilities and all other utility facilities and services necessary for the operation and occupancy of the Property as a hotel.

"WARN Act" means the Worker Adjustment and Retraining Notification Act of 1988.

#### 1.2 Rules of Construction.

The following rules shall apply to the construction and interpretation of this Agreement:

(a) Singular words shall connote the plural number as well as the singular and vice versa, and the masculine shall include the feminine and the neuter.

(b) All references herein to particular articles, sections, subsections, clauses or exhibits are references to articles, sections, subsections, clauses or exhibits of this Agreement.

(c) The table of contents and headings contained herein are solely for convenience of reference and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

(d) Each party hereto and its counsel have reviewed and revised (or requested revisions of) this Agreement, and therefore any usual rules of construction requiring that ambiguities are to be resolved against a particular party shall not be applicable in the construction and interpretation of this Agreement or any exhibits hereto.

## **ARTICLE 2**

### **PURCHASE AND SALE; DEPOSIT; PAYMENT OF PURCHASE PRICE**

2.1 Purchase and Sale. The Sellers agree to sell to the Purchaser and the Purchaser agrees to purchase from the Sellers the Properties for the Purchase Price, in accordance with the terms and conditions set forth herein.

2.2 Deposit. Simultaneously with the full execution of this Agreement, the Purchaser will deposit in escrow with the Title Company the sum of One Million and No/Dollars (\$1,000,000) as an earnest money deposit (the "Initial Deposit"). Upon the expiration of the Study Period, if the Purchaser elects to proceed with the purchase of the Properties in accordance with the terms of this Agreement, the Purchaser will deposit in escrow with the Title Company

an additional sum of One Million and No/Dollars (\$1,000,000) as additional earnest money (the “Additional Deposit”, and together with the Initial Deposit, the “Deposit”). The Deposit shall be in the form of cash and shall be invested by the Title Company in an interest-bearing account reasonably acceptable to the Purchaser and the Sellers. Following the expiration of the Due Diligence Period, the Deposit shall be non-refundable to Purchaser, except in the event of Seller default, failure of a condition precedent in favor of Purchaser or termination of this Agreement pursuant to Section 2.3(d). All interest earned on the Deposit shall be paid over to the party entitled to the receipt of the Deposit under the terms of this Agreement.

### 2.3 Study Period.

(a) The Purchaser shall have, with respect to each Property, the right during the Study Period (and thereafter if the Purchaser notifies the Sellers that the Purchaser has elected to proceed to Closing in the manner described below) upon not less than one (1) business day prior notice to the applicable Seller, to enter upon the Real Property and to perform, at the Purchaser’s expense, such economic, surveying, engineering, environmental, topographic and marketing tests, studies and investigations as the Purchaser may deem appropriate. If such tests, studies and investigations warrant, in the Purchaser’s sole, absolute and unreviewable discretion, the purchase of the Property for the purposes contemplated by the Purchaser, then the Purchaser may elect to proceed to Closing and shall so notify the Sellers prior to the expiration of the Study Period. If for any reason the Purchaser does not so notify the Sellers of its determination to proceed to Closing prior to the expiration of the Study Period, or if the Purchaser notifies the Sellers, in writing, prior to the expiration of the Study Period that it has determined not to proceed to Closing, this Agreement shall automatically terminate, the Deposit shall be returned to the Purchaser and upon return of the Deposit, the Purchaser shall be released from any further liability or obligation under this Agreement, except those which expressly survive the termination of this Agreement.

(b) During the Study Period, the Sellers shall make available to the Purchaser, its agents, auditors, engineers, attorneys and other designees, for inspection copies of all existing architectural and engineering studies, surveys, title insurance policies, zoning and site plan materials, environmental audits and other related materials or information, if any, relating to the Properties which are in, or come into, the Sellers’ possession or control. Notwithstanding the foregoing, Sellers shall not be obligated to deliver to the Purchaser any materials of a proprietary nature. Purchaser acknowledges that, except as otherwise herein provided, any such materials delivered to the Purchaser pursuant to this provision shall be without warranty, representation or recourse.

(c) The Purchaser shall indemnify, hold harmless and defend the Sellers against any loss, damage or claim arising from entry upon the Real Property by the Purchaser or any agents, contractors or employees of the Purchaser. The Purchaser understands and accepts that any on-site inspections of the Real Property shall occur at reasonable times agreed upon by the applicable Seller and the Purchaser after not less than one (1) business day prior notice to such Seller and shall be conducted so as not to interfere unreasonably with the operation of the Property and the use of the Property by the tenants and the guests of the Hotel. The Sellers shall have the right to have a representative present during any such inspections. If the Purchaser desires to do any invasive testing at the Real Property, the Purchaser shall do so only after

obtaining the prior written consent of Seller, which approval may be subject to reasonable terms and conditions as may be proposed by the Seller. The Purchaser shall not permit any liens to attach to the Property by reason of such inspections. The Purchaser shall (i) restore the Property, at its own expense, to substantially the same condition which existed prior to any inspections or other activities of the Purchaser thereon; and (ii) be responsible for and pay any and all liens by contractors, subcontractors, materialmen, or laborers performing the inspections or any work for the Purchaser or the Purchaser Parties on or related to the Property. The terms of this Section 2.3(c) shall survive the termination of this Agreement.

(d) During the Study Period, the Purchaser, at its expense, shall cause an examination of title to the Properties to be made, and, prior to the expiration of the Study Period (as may be extended pursuant to Section 2.3(e), but not Section 2.3(f)), shall notify the Sellers of any defects in title shown by such examination that the Purchaser is unwilling to accept. Within ten (10) days after such notification, the Sellers shall notify the Purchaser whether the Sellers are willing to cure such defects. If the Sellers are willing to cure such defects, the Sellers shall act promptly and diligently to cure such defects at its expense. If such defects consist of deeds of trust, mechanics' liens, tax liens or other liens or charges in a fixed sum or capable of computation as a fixed sum, the Sellers shall pay and discharge (and the Title Company is authorized to pay and discharge at Closing) such defects at Closing. If the Sellers are unwilling or unable to cure any other such defects by Closing, the Purchaser shall elect (1) to waive such defects and proceed to Closing without any abatement in the Purchase Price or (2) to terminate this Agreement and receive a full refund of the Deposit. The Sellers shall not, after the date of this Agreement, subject the Properties to any liens, encumbrances, covenants, conditions, restrictions, easements or other title matters or seek any zoning changes or take any other action which may affect or modify the status of title without the Purchaser's prior written consent. All title matters revealed by the Purchaser's title examination and not objected to by the Purchaser as provided above shall be deemed Permitted Title Exceptions. If Purchaser shall fail to examine title and notify the Seller of any such title objections by the end of the Study Period, all such title exceptions (other than those rendering title unmarketable and those that are to be paid at Closing as provided above) shall be deemed Permitted Title Exceptions.

(e) If, despite Purchaser's commercially reasonable efforts to obtain and review all third party reports during the Study Period, Purchaser shall not have received any such reports, Purchaser shall have the right to extend the Study Period for all of the Hotels for seven (7) days solely in order to obtain and review the third party reports Purchaser did not receive during the Study Period.

(f) If, despite Purchaser's commercially reasonable efforts to obtain each lender's approval to a Loan Assumption during the Study Period, Purchaser shall not have received any Lender's approval to a Loan Assumption, Purchaser shall have the right to extend the Study Period for the Courtyard and Springhill Suites only for forty-five (45) days solely in order to attempt to obtain such lender's approval of a Loan Assumption.

2.4 Payment of Purchase Price. The Purchase Price shall be paid to the Sellers in the following manner:

(a) The Purchaser shall receive a credit against the Purchase Price in an amount equal to one quarter (1/4) of the Deposit, plus interest accrued thereon, at the Closing for each of the Properties.

(b) The Purchaser shall receive a credit against the Purchase Price in an amount equal to the outstanding principal balance of the Assumed Loans on the Closing Date for the Courtyard and Springhill Suites. For avoidance of doubt, all reserve or escrow accounts held by the applicable Seller under the Assumed Loan are not being conveyed by Seller to Purchaser as part of the assumption of the Assumed Loans. Purchaser acknowledges and agrees any reserve accounts required to be transferred as part of the assumption of an Assumed Loan will be reimbursed by Purchaser to the applicable Seller at Closing.

(c) The Purchaser shall pay the balance of the Purchase Price, as adjusted in the manner specified in Article 6, in cash or by confirmed wire transfer of immediately available federal funds to the account of the Title Company, to be disbursed to the Sellers or other applicable parties at Closing. Such wire transfer shall be sent by the Purchaser to the Title Company for the account of the Seller no later than 2:01 p.m., Houston, Texas, time on the Closing Date.

2.5 Assumption of Assumed Loans. At the closing for the Courtyard and Springhill Suites Hotels, Purchaser shall assume the Assumed Loans. With respect to Purchaser's assumption of Assumed Loans, (a) not later than five (5) business days after the Effective Date, Purchaser shall use reasonable commercial efforts to commence its efforts to process the assumption of the Assumed Loans by Purchaser ("Loan Assumption"), including but not limited to providing all reasonable information concerning the transfer of the Property to the applicable lender ("Assumption Application"), (b) Purchaser and Seller shall cooperate and use all reasonable and diligent efforts to cause the applicable lender (or its loan servicer) to consent to the Loan Assumption and to cause the applicable Seller and all applicable guarantors, if any, to be released from any and all liability under the Assumed Loans following the Closing Date; provided, however, Seller's cooperation shall be at no cost or expense to Seller, (c) for purposes of determining the amount of the Assumed Loans to be credited toward the Purchase Price, the aggregate of the outstanding principal balance of the Assumed Loans and all accrued and unpaid interest and late charges or other similar fees, if any, as of the Closing Date (but expressly excluding the Assumption Fee (defined below) shall be aggregated and determined and shall be credited to the Purchase Price and (d) Purchaser shall be exclusively liable for and shall pay as the same are incurred (i) the assumption fees and/or costs required by the Lender (or the loan servicer), and (ii) all fees, expenses and/or costs required by the lender to process the Assumption Application and the Loan Assumption (collectively, the "Assumption Fee").

2.6 Allocation of Purchase Price. The parties agree that the Purchase Price shall be allocated among the various components of the Property in the manner indicated on Exhibit G attached hereto.



**ARTICLE 3**  
**SELLERS' REPRESENTATIONS, WARRANTIES AND COVENANTS**

To induce the Purchaser to enter into this Agreement and to purchase the Properties, each Seller, with respect to such Seller and the Property owned by such Seller, hereby makes the following representations, warranties and covenants, upon each of which the Seller acknowledges and agrees that the Purchaser is entitled to rely and has relied. Each such representation shall be materially true and correct on the Effective Date and shall be materially true and correct on the Closing Date.

3.1 Organization and Power. Each Seller is a limited liability company duly formed, validly existing and in good standing under the laws of its state of formation and has all requisite powers and all governmental licenses, authorizations, consents and approvals to carry on its business as now conducted and to enter into and perform its obligations hereunder and under any document or instrument required to be executed and delivered on behalf of the Sellers hereunder.

3.2 Authorization and Execution. This Agreement has been duly authorized by all necessary action on the part of the Seller, has been duly executed and delivered by the Seller, constitutes the valid and binding agreement of the Seller and is enforceable in accordance with its terms. There is no other person or entity who has an ownership interest in the Property to be sold hereunder by the Seller or whose consent is required in connection with the Seller's performance of its obligations hereunder.

3.3 Noncontravention. Subject to any consent to the assignment of any particular Operative Agreement, management agreement or Courtyard Ground Lease, required by the terms thereof or by applicable laws, the execution and delivery of, and the performance by the Seller of its obligations under, this Agreement do not and will not contravene, or constitute a default under, any provision of applicable law or regulation, the Seller's Organizational Documents or any agreement, judgment, injunction, order, decree or other instrument binding upon the Seller. There are no outstanding agreements (written or oral) pursuant to which the Seller (or any predecessor to or representative of the Seller) has agreed to sell or has granted an option or right of first refusal to purchase the Property or any part thereof.

3.4 No Special Taxes. The Seller has no Knowledge of, nor has it received any notice of, any special taxes or assessments relating to the Property to be sold hereunder by the Seller or any part thereof or any planned public improvements that may result in a special tax or assessment against the Property.

3.5 Compliance with Existing Laws. To Seller's Knowledge, the Seller possesses all Authorizations, each of which is valid and in full force and effect, and no provision, condition or limitation of any of the Authorizations has been breached or violated. The Seller has not misrepresented or failed to disclose any relevant fact in obtaining all Authorizations, and the Seller has no Knowledge of any change in the circumstances under which those Authorizations were obtained that result in their termination, suspension, modification or limitation. The Seller has no Knowledge, nor has it received notice within the past three (3) years, of any existing or threatened violation of any provision of any applicable building, zoning, subdivision, environmental or other governmental ordinance, resolution, statute, rule, order or regulation,

including but not limited to those of environmental agencies or insurance boards of underwriters, with respect to the ownership, operation, use, maintenance or condition of the Property or any part thereof, or requiring any repairs or alterations other than those that have been made prior to the date hereof.

3.6 Operative Agreements. The Seller will not enter into any new management agreement, maintenance or repair contract, supply contract, lease in which it is lessee or other agreements with respect to the Property, nor shall the Seller enter into any agreements modifying the Operative Agreements, unless (a) any such agreement or modification will not bind the Purchaser or the Property after the date of Closing or (b) the Seller has obtained the Purchaser's prior written consent to such agreement or modification. All of the Operative Agreements in force and effect as of the date hereof are listed on Exhibit E attached hereto.

3.7 Warranties and Guaranties. The Seller shall not before or after Closing, release or modify any warranties or guarantees, if any, of manufacturers, suppliers and installers relating to the Improvements and the Personal Property or any part thereof, except with the prior written consent of the Purchaser. A complete list of all such warranties and guaranties in effect as of this date is attached hereto as Exhibit H.

3.8 Insurance. To Seller's Knowledge, all of the Seller's Insurance Policies are valid and in full force and effect, all premiums for such policies were paid when due and all future premiums for such policies (and any replacements thereof) shall be paid by the Seller on or before the due date therefor. The Seller shall pay all premiums on, and shall not cancel or voluntarily allow to expire, any of the Seller's Insurance Policies unless such policy is replaced, without any lapse of coverage, by another policy or policies providing coverage at least as extensive as the policy or policies being replaced.

3.9 Condemnation Proceedings; Roadways. Seller has no Knowledge of any notice of any condemnation or eminent domain proceeding pending or threatened against the Property or any part thereof. The Seller has no Knowledge of any change or proposed change in the route, grade or width of, or otherwise affecting, any street or road adjacent to or serving the Real Property.

3.10 Litigation. Seller has no Knowledge of any action, suit or proceeding pending or threatened against or affecting the Seller in any court, before any arbitrator or before or by any Governmental Body which (a) in any manner raises any question affecting the validity or enforceability of this Agreement or any other agreement or instrument to which the Seller is a party or by which it is bound and that is or is to be used in connection with, or is contemplated by, this Agreement, (b) could materially and adversely affect the ability of the Seller to perform its obligations hereunder, or under any document to be delivered pursuant hereto, (c) could create a lien on the Property, any part thereof or any interest therein, (d) the subject matter of which concerns any past or present employee of the Seller or (e) could otherwise materially adversely affect the Property, any part thereof or any interest therein or the use, operation, condition or occupancy thereof.

3.11 Labor Disputes and Agreements. Seller has no employees. Seller has no Knowledge of any labor disputes pending or, threatened as to the operation or maintenance of the

Property or any part thereof. The Seller is not a party to any union or other collective bargaining agreement with employees employed in connection with the ownership, operation or maintenance of the Property. The Seller is not a party to any employment contracts or agreements, and neither the Seller nor its managing agent will, between the date hereof and the date of Closing, enter into any new employment contracts or agreements or hire any new employees except with the prior written consent of the Purchaser. The Purchaser will not be obligated to give or pay any amount to any employee of the Seller or the Seller's managing agent unless the Purchaser elects to hire that employee. The Purchaser shall not have any liability under any pension or profit sharing plan that the Seller or its managing agent may have established with respect to the Property or their or its employees.

3.12 Financial Information. To the best of Seller's Knowledge, all of the Seller's financial information, including, without limitation, all books and records and financial statements ("Financial Information") is correct and complete in all respects and presents accurately the results of the operations of the Property for the periods indicated. Since the date of the last financial statement included in the Seller's Financial Information, there has been no material adverse change in the financial condition or in the operations of the Property.

3.13 Operation of Property. The Seller covenants, that between the date hereof and the date of Closing, it will (a) operate the Property only in the usual, regular and ordinary manner consistent with the Seller's prior practice, (b) maintain its books of account and records in the usual, regular and ordinary manner, in accordance with sound accounting principles applied on a basis consistent with the basis used in keeping its books in prior years and (c) use all reasonable efforts to preserve intact its present business organization, keep available the services of its present officers, partners and employees and preserve its relationships with suppliers and others having business dealings with it comply with and perform all of the duties and obligations of licensee under the License. The Seller shall continue to use its best efforts to take guest room reservations and to book functions and meetings and otherwise to promote the business of the Property in generally the same manner as the Seller did prior to the execution of this Agreement. All advance room bookings and reservations and all meetings and function bookings shall continue to be booked at rates, prices and charges heretofore customarily charged by the Seller for such purposes, and in accordance with the Seller's published rate schedules. Except as otherwise permitted hereby, from the date hereof until Closing, the Seller shall not take any action or fail to take action the result of which (i) would have a material adverse effect on the Property or the Purchaser's ability to continue the operation thereof after the date of Closing in substantially the same manner as presently conducted, (ii) reduce or cause to be reduced any room rents or any other charges over which the Seller has operational control, or (iii) would cause any of the representations and warranties contained in this Article 3 to be untrue as of Closing. Seller shall deliver to the Purchaser daily reports showing the income and expenses of the Hotel and all departments thereof, together with such periodic information with respect to room reservations and other bookings, as the Seller customarily keeps internally for its own use.

3.14 Personal Property. All of the Tangible Personal Property, Intangible Personal Property and Inventory being conveyed by the Seller to the Purchaser or to the Purchaser's managing agent, lessee or designee, are free and clear of all liens, leases and other encumbrances and will be so on the date of Closing and the Seller has good, merchantable title thereto and the right to convey same in accordance with the terms of the Agreement.

3.15 Bankruptcy. No Act of Bankruptcy has occurred with respect to the Seller.

3.16 Brokers. Other than Hodges Ward Elliott, the Seller has not engaged the services of, nor is it or will it become liable to, any real estate agent, broker, finder or any other person or entity for any brokerage or finder's fee, commission or other amount with respect to the transactions described herein.

3.17 Hazardous Substances. The Seller has no Knowledge:

(a) of the presence of any "Hazardous Substances" (as defined below) on the Property, or any portion thereof, or,

(b) of any spills, releases, discharges, or disposal of Hazardous Substances that have occurred or are presently occurring on or onto the Property, or any portion thereof, or

(c) of the presence of any PCB transformers serving, or stored on, the Property, or any portion thereof, and Seller has no knowledge of any failure to comply with any applicable local, state and federal environmental laws, regulations, ordinances and administrative and judicial orders relating to the generation, recycling, reuse, sale, storage, handling, transport and disposal of any Hazardous Substances (as used herein, "Hazardous Substances" shall mean any substance or material whose presence, nature, quantity or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials is either:

(1) potentially injurious to the public health, safety or welfare, the environment or the Property,

(2) regulated, monitored or defined as a hazardous or toxic substance or waste by any Environmental Authority, or

(3) a basis for liability of the owner of the Property to any Environmental Authority or third party, and Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil, or any products, by-products or components thereof, and asbestos.

3.18 License. To Seller's Knowledge, the franchise license with respect to the Hotel (the "License") is valid and in full force and effect, and Seller is not in default with respect thereto (with or without the giving of any required notice and/or lapse of time).

3.19 Independent Audit. Seller shall provide access by Purchaser's representatives to all financial and other information relating to the Property which would be sufficient to enable them to prepare audited financial statements in conformity with Regulation S-X of the Securities and Exchange Commission (the "Commission") and to enable them to prepare a registration statement, report or disclosure statement for filing with the Commission. Seller shall also provide to Purchaser's representatives a signed representative letter which would be sufficient to enable an independent public accountant to render an opinion on the financial statements related to the Property. This shall survive for two years after the last Closing Date.

3.20 Bulk Sale Compliance. The Sellers shall, jointly and severally, indemnify Purchaser against any claim, loss or liability arising under the bulk sales law in connection with the transaction contemplated herein.

3.21 Liquor License. To Seller's Knowledge, the liquor license for the Hotel (and any restaurant located therein) is in full force and effect and validly licensed to the person(s) required to be licensed under the law of the State in which the Hotel is located.

### 3.22 Management Agreements.

(a) The copy of the Courtyard Management Agreement attached hereto as Exhibit I is a true, correct and complete copy of the Courtyard Management Agreement, the Courtyard Management Agreement is in full force and effect and has not been modified or supplemented, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default thereunder.

(b) The copy of the Springhill Suites Management Agreement attached hereto as Exhibit J is a true, correct and complete copy of the Springhill Suites Management Agreement, the Springhill Suites Management Agreement is in full force and effect and has not been modified or supplemented, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default thereunder.

3.23 Courtyard Ground Lease. The copy of the Courtyard Ground Lease attached hereto as Exhibit K is a true, correct and complete copy of the Courtyard Ground Lease, the Courtyard Ground Lease is in full force and effect and has not been modified or supplemented, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default thereunder.

3.24 Residence Inn Condominium Documentation. The Seller has provided the Purchaser with true, correct and complete copies of the Residence Inn Condominium Documents, and the Residence Inn Condominium Documents are in full force and effect and have not been modified or supplemented. The Seller is in compliance with the Residence Inn Condominium Documents in all respects, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default thereunder. The Seller has provided the Purchaser with true, correct and complete copies of the Residence Inn Unit Leases and, to Seller's Knowledge, the Residence Inn Unit Leases are in full force and effect and have not been modified or supplemented.

3.25 Money Laundering. The Seller is not acting, directly or indirectly, for or on behalf of any person, group, entity or nation named by the United States Treasury Department as a Specifically Designated National and Blocked person, or for or on behalf of any person, group, entity or nation designated in Presidential Executive Order 13224 (the "Executive Order") as a person who commits, threatens to commit, or supports terrorism; and it is not engaged in this transaction directly or indirectly on behalf of, or facilitating this transaction directly or indirectly on behalf of, any such person, group, entity or nation terrorists, terrorist organizations or narcotics traffickers, including, without limitation, those persons or entities that appear on the Annex to the Executive Order, or are included on any relevant lists maintained by the Office of

Foreign Assets Control of U.S. Department of Treasury, U.S. Department of State, or other U.S. government agencies, all as may be amended from time to time. Neither Seller, nor any person controlling or controlled by Seller, is a country, territory, individual or entity named on a Government List, and the monies used in connection with this Agreement and amounts committed with respect thereto, were not and are not derived from any activities that contravene any applicable anti-money laundering or anti bribery laws and regulations (including, without limitation, funds being derived from any person, entity, country or territory on a Government List or engaged in any unlawful activity defined under 18 USC §1956(c)(7)). For purposes of this Agreement, "Government List" means of any of (i) the two lists maintained by the United States Department of Commerce (Denied Persons and Entities), (ii) the list maintained by the United States Department of Treasury (Specially Designated Nationals and Blocked Persons) and (iii) the two lists maintained by the United States Department of State (Terrorist Organizations and Debarred Parties).

The representations and warranties in this Article 3 shall survive the Closing for a period of one (1) year following the Closing Date ("Survival Period"). Notwithstanding anything to the contrary contained in this Agreement, any claim that Purchaser may have during the Survival Period against Seller for any breach of the representations and warranties contained in this Article 3 will not be valid or effective, and Sellers shall have no liability with respect thereto, unless the aggregate of all valid claims exceed Fifty Thousand and No/Dollars (\$50,000.00). Seller's liability for damages resulting from valid claims during the Survival Period shall in no event exceed two and one-half percent (2.5%) of the Purchase Price in the aggregate. Purchaser agrees that, with respect to any alleged breach of representations in this Agreement discovered after the Survival Period, the maximum liability of Seller for all such alleged breaches is limited to One Hundred and No/Dollars (\$100.00). In the event Purchaser obtains actual knowledge on or before Closing of any material inaccuracy in any of the representations and warranties contained in this Article 3, and such materially inaccuracy is not promptly corrected or resolved by Seller following notice from Purchaser, Purchaser may as Purchaser's sole and exclusive remedy either: (i) terminate this Agreement, whereupon Deposit shall be refunded to Purchaser and Purchaser shall be entitled to receive reimbursement from Seller for Purchaser's out of pocket expenses actually incurred in connection with the transaction contemplated by this Agreement, not to exceed One Hundred Thousand and No/Dollars (\$100,000.00), and neither party shall have any further rights or obligations pursuant to this Agreement, other than as set forth herein with respect to rights or obligations that survive termination; or (ii) waive any and all claims against Seller on account of such inaccuracy and close the transaction. In the event Purchaser obtains knowledge on or before the expiration of the Study Period of any inaccuracy in any of the representations and warranties contained in this Article 3, and Purchaser does not terminate this Agreement on or before the expiration of the Study Period, Purchaser shall be deemed to have waived any and all claims against Seller on account of such inaccuracy (including the right to terminate this Agreement following the expiration of the Study Period). The provisions of this Article 3 shall survive the Closing.

#### **ARTICLE 4 PURCHASER'S REPRESENTATIONS, WARRANTIES AND COVENANTS**

To induce the Sellers to enter into this Agreement and to sell the Properties, the Purchaser hereby makes the following representations, warranties and covenants, upon each of which the

Purchaser acknowledges and agrees that the Seller is entitled to rely and has relied. Each such representation shall be materially true and correct on the Effective Date and shall be materially true and correct on the Closing Date.

4.1 Organization and Power. The Purchaser is a real estate investment trust duly organized, validly existing and in good standing under the laws of the State of Maryland, and has all trust powers and all governmental licenses, authorizations, consents and approvals to carry on its business as now conducted and to enter into and perform its obligations under this Agreement and any document or instrument required to be executed and delivered on behalf of the Purchaser hereunder.

4.2 Noncontravention. The execution and delivery of this Agreement and the performance by the Purchaser of its obligations hereunder do not and will not contravene, or constitute a default under, any provisions of applicable law or regulation, the Purchaser's declaration of trust or other trust document or any agreement, judgment, injunction, order, decree or other instrument binding upon the Purchaser.

4.3 Litigation. There is no action, suit or proceeding, pending or known by the Purchaser to be threatened against or affecting the Purchaser in any court or before any arbitrator or before any Governmental Body which (a) in any manner raises any question affecting the validity or enforceability of this Agreement or any other agreement or instrument to which the Purchaser is a party or by which it is bound and that is to be used in connection with, or is contemplated by, this Agreement, (b) could materially and adversely affect the ability of the Purchaser to perform its obligations hereunder, or under any document to be delivered pursuant hereto, (c) could create a lien on the Property, any part thereof or any interest therein or (d) could adversely affect the Property, any part thereof or any interest therein or the use, operation, condition or occupancy thereof.

4.4 Bankruptcy. No Act of Bankruptcy has occurred with respect to the Purchaser.

4.5 No Brokers. The Purchaser has not engaged the services of, nor is it or will it become liable to, any real estate agent, broker, finder or any other person or entity for any brokerage or finder's fee, commission or other amount with respect to the transaction described herein.

4.6 Money Laundering. The Purchaser is not acting, directly or indirectly, for or on behalf of any person, group, entity or nation named by the United States Treasury Department as a Specifically Designated National and Blocked person, or for or on behalf of any person, group, entity or nation designated in the Executive Order as a person who commits, threatens to commit, or supports terrorism; and it is not engaged in this transaction directly or indirectly on behalf of, or facilitating this transaction directly or indirectly on behalf of, any such person, group, entity or nation terrorists, terrorist organizations or narcotics traffickers, including, without limitation, those persons or entities that appear on the Annex to the Executive Order, or are included on any relevant lists maintained by the Office of Foreign Assets Control of U.S. Department of Treasury, U.S. Department of State, or other U.S. government agencies, all as may be amended from time to time. Neither Purchaser, nor any person controlling or controlled by Purchaser, is a country, territory, individual or entity named on a Government List, and the

monies used in connection with this Agreement and amounts committed with respect thereto, were not and are not derived from any activities that contravene any applicable anti-money laundering or anti bribery laws and regulations (including, without limitation, funds being derived from any person, entity, country or territory on a Government List or engaged in any unlawful activity defined under 18 USC §1956(c)(7)).

4.7 AS IS, WHERE IS.

PURCHASER EXPRESSLY ACKNOWLEDGES AND AGREES THAT, AS A MATERIAL PART OF THE CONSIDERATION FOR THIS AGREEMENT, THE PROPERTY IS BEING SOLD TO PURCHASER AND PURCHASER AGREES TO PURCHASE AND ACCEPT THE PROPERTY, AND EACH AND EVERY PART AND COMPONENT THEREOF, IN AN "AS IS, WHERE IS" CONDITION AS OF THE CLOSING WITH NO REPRESENTATIONS OR WARRANTIES FROM SELLER, EITHER EXPRESS OR IMPLIED EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT. PURCHASER AGREES THAT PURCHASER IS NOT RELYING UPON, AND HAS NOT RECEIVED OR BEEN GIVEN, ANY REPRESENTATIONS (EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT), STATEMENTS OR WARRANTIES (ORAL OR WRITTEN, IMPLIED OR EXPRESS) OF OR BY ANY OFFICER, EMPLOYEE, AGENT OR REPRESENTATIVE OF SELLER, OR ANY SALESPERSON OR BROKER (IF ANY) INVOLVED IN THIS TRANSACTION, AS TO THE PROPERTY OR ANY PART OR COMPONENT THEREOF IN ANY RESPECT, INCLUDING, BUT NOT LIMITED TO, ANY REPRESENTATIONS, STATEMENTS OR WARRANTIES AS TO THE PHYSICAL OR ENVIRONMENTAL CONDITION OF THE PROPERTY, THE FITNESS OF THE PROPERTY FOR USE AS A HOTEL, THE FINANCIAL PERFORMANCE OR POTENTIAL OF THE PROPERTY, THE COMPLIANCE OF THE PROPERTY WITH APPLICABLE BUILDING, ZONING, SUBDIVISION, ENVIRONMENTAL, LIFE SAFETY OR LAND USE LAWS, CODES, ORDINANCES, RULES, ORDERS, OR REGULATIONS, OR THE STATE OF REPAIR OF THE PROPERTY, AND PURCHASER, FOR ITSELF AND ITS HEIRS, LEGAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS, WAIVES ANY RIGHT TO ASSERT ANY CLAIM OR DEMAND AGAINST SELLERS AT LAW OR IN EQUITY RELATING TO ANY SUCH MATTER, WHETHER LATENT OR PATENT, DISCLOSED OR UNDISCLOSED, KNOWN OR UNKNOWN, NOW EXISTING OR HEREAFTER ARISING EXCEPTING ANY CLAIM OR DEMAND RELATING TO REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT. EXCEPT FOR ANY TITLE OR SURVEY MATTERS CREATED SOLELY BY SELLER IN VIOLATION OF THIS AGREEMENT, PURCHASER AGREES THAT IT SHALL HAVE NO RECOURSE WHATSOEVER AGAINST SELLER, AT LAW OR IN EQUITY, SHOULD THE SURVEY OR THE TITLE INSURANCE COMMITMENTS OR THE TITLE POLICIES FAIL TO DISCLOSE ANY MATTER AFFECTING THE PROPERTY OR REVEAL ANY SUCH MATTER IN AN INACCURATE, MISLEADING OR INCOMPLETE FASHION OR OTHERWISE BE IN ERROR. PURCHASER ACKNOWLEDGES THAT IT SHALL REVIEW THE SURVEY AND THE TITLE INSURANCE COMMITMENTS (AS SAME MAY BE MARKED AT CLOSING) AND TO DISCUSS THEIR CONTENTS WITH THE INDEPENDENT CONTRACTORS WHO PREPARED OR ISSUED EACH OF THEM. PURCHASER ACCORDINGLY AGREES TO LOOK SOLELY TO THE PREPARER OF THE SURVEY AND THE ISSUER OF THE TITLE INSURANCE COMMITMENTS AND



TITLE POLICIES FOR ANY CLAIM ARISING OUT OF OR IN CONNECTION WITH SUCH INSTRUMENTS AND HEREBY RELEASES SELLERS FROM ANY SUCH CLAIM (EXCEPT FOR ANY CLAIM THAT SELLERS AGREE TO CURE AS SET FORTH IN THIS AGREEMENT).

Purchaser recognizes that the Hotels and Personal Property are not new and that there exists a possibility that the Property is not in compliance with the requirements which would be imposed on a newly constructed hotel by presently effective federal, state and local building, plumbing, electrical, fire, health, handicap, environmental and life safety laws, codes, ordinances, rules, orders and/or regulations (collectively, the “building codes”). The Hotels and other improvements on the Land may contain substances or materials no longer permitted to be used in newly constructed buildings including, without limitation, asbestos or other insulation materials, lead or other paints, wiring, electrical, or plumbing materials and may not contain other materials or equipment required to be installed in a newly constructed building. Purchaser will have the opportunity, as provided for in Section 2.3, to investigate and inspect the Property and review the results of such investigations and inspections of the Property as Purchaser deemed necessary with respect to all such matters. Except as otherwise set forth in this Agreement, Purchaser agrees to accept and shall the Property in an “AS-IS, WHERE IS” condition and at Closing to accept and assume the risk of noncompliance of the Property with all such building codes. Except with respect to those representations set forth in Article 3 hereof, Purchaser waives any right to excuse (except as specifically set forth in this Agreement) or delay performance of its obligations under this Agreement or to assert any claim against Sellers (before or after Closing) arising out of any failure of the Property to comply with any such building codes.

Except with respect to those representations set forth in Article 3, it is specifically understood and agreed by Seller and Purchaser that Seller does not make, and shall not be deemed to have made, any representation, warranty or covenant with respect to (i) any Environmental Laws that may affect any of the Property or (ii) the presence or absence of any Hazardous or Toxic Substances in, on, above, under or about any of the Property (“Environmental Conditions”). From and after Closing, Purchaser agrees for itself and for its heirs, successors and assigns, to waive all of its rights under this Agreement, if any, and any Environmental Laws to require Seller to remediate or “clean up” the Property and releases Seller from any liability of any kind or nature arising with respect to any Environmental Conditions at the Property. As used in this Agreement, (A) the term “Environmental Laws” means all federal, State and local laws, codes, ordinances, rules, orders and regulations now or hereafter in effect relating to pollution or the protection of the environment, including without limitation, all laws, codes, ordinances, rules, orders and regulations governing the generation, use, collection, treatment, storage, transportation, recovery, removal, discharge, spill or disposal of any or all Hazardous or Toxic Substances, and (B) the term “Hazardous Substances” or “Toxic Substances” means materials and substances defined as “hazardous substances”, “hazardous wastes”, “toxic substances” or “toxic wastes” in (I) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Sections 9601-9675, as amended by the Superfund Amendments and Reauthorization Act of 1988, and any further amendments thereto and rules, orders and regulations thereunder; (II) the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Sections 6901-6992, as amended by the Hazardous and Solid Waste Amendments of 1984, and any further amendments thereto and rules, orders and regulations thereunder; or (III) any other Environmental Laws. Purchaser acknowledges and agrees that: (a) Purchaser is an experienced

and sophisticated owner of real property; (b) Purchaser has expressly negotiated the limitations of liability contained in this Section; and (c) the limitations contained in this Section are reasonable. Purchaser acknowledges and agrees that Seller has agreed to enter into this Agreement in consideration for and in reliance upon the foregoing limitations of liability, and that the consideration under this Agreement is based in part on the limitations of liability.

It is understood and agreed by Sellers and Purchaser that in the event of any conflict between the terms and provisions of this Section 4.7 and any other term or provision to this Agreement, the relevant term or provision of this Section 4.7 shall control and govern. The provisions of this Article 4 shall survive Closing.

## **ARTICLE 5 CONDITIONS AND ADDITIONAL COVENANTS**

5.1 Conditions to Purchaser's Obligations. The Purchaser's obligations hereunder are subject to the satisfaction of the following conditions precedent with respect to each Property and the compliance by the Sellers with the following covenants, to the extent applicable to the Sellers:

(a) Sellers' Deliveries. The Sellers shall have delivered to the Title Company or the Purchaser, as the case may be, on or before the date of Closing, all of the documents and other information required of the Sellers pursuant to Section 6.2.

(b) Representations, Warranties and Covenants; Obligations of the Sellers; Certificate. All of the Sellers' representations and warranties made in this Agreement shall be true and correct as of the date hereof and as of the date of Closing as if then made, there shall have occurred no material adverse change in the condition of the Properties since the date hereof, the Sellers shall have performed all of the covenants and other obligations under this Agreement applicable to the Sellers and the Sellers shall have executed and delivered to the Purchaser at Closing a certificate to the foregoing effect.

(c) Condition of Improvements. Except to the extent that repair or restoration of a Property is required hereunder, in which case the Improvements and the Tangible Personal Property shall be in the condition required by this Agreement, the Improvements and the Tangible Personal Property (including but not limited to the mechanical systems, plumbing, electrical, wiring, appliances, fixtures, heating, air conditioning and ventilating equipment, elevators, boilers, equipment, roofs, structural members and furnaces) shall be in the same or better condition at Closing as they are as of the date hereof, reasonable wear and tear excepted. Prior to Closing, the Seller shall not have diminished the quality or quantity of maintenance and upkeep services heretofore provided to the Real Property and the Tangible Personal Property and the Seller shall not have diminished the Inventory (except as may be diminished in the normal course of business). The Seller shall not have removed or caused or permitted to be removed any part or portion of the Real Property or the Tangible Personal Property unless the same is replaced, prior to Closing, with similar items of at least equal quality and acceptable to the Purchaser.

(d) Repair of Flood and Related Damage. The Sellers shall have repaired all flood and related damage to the Residence Inn and the Hampton Inn and restored each such Hotel to at least the condition existing prior to occurrence or occurrences rendering such damage: (i) in a professional and workmanlike manner; (ii) in accordance with all applicable laws, applicable permits and prudent industry practices; and (iii) only with materials and equipment that are new, operating properly and of good quality. Purchaser shall have approved such repair and restoration in its sole and absolute discretion.

(e) Environmental Report; Property Condition Report. Provided Purchaser has used commercially reasonable and diligent efforts, the Purchaser shall have obtained a current Phase I environmental report and a current property condition report, each of which shall be satisfactory to the Purchaser in its reasonable discretion.

(f) Franchise License. The Licensor for each Property shall have consented to the sale of such Property, and the Purchaser and each respective Licensor shall have arranged for the assignment and assumption of the respective Licenses or the termination of the existing Licenses and the replacement thereof with new Licenses to which the Purchaser is a party. The Purchaser will use commercially reasonable efforts to obtain such License and shall pay all costs and expenses associated therewith. The Sellers shall assist the Purchaser in respect thereto, but shall not be responsible for any costs or expenses.

(g) Property Improvement Plan. To the extent required by any Licensor and provided Purchaser has used commercially reasonable and diligent efforts, the Purchaser shall have obtained a Property Improvement Plan ("PIP") from Licensor by and at the cost of the Purchaser. As soon as possible following the date hereof, the Sellers shall arrange for the inspection and creation of a PIP by the Licensor for each of the Properties (to the extent such PIP has not already been initiated), and the Sellers shall endeavor to have each such PIP completed as promptly as possible. The Purchaser shall be responsible for paying or reimbursing the Seller for any fees or expenses charged by the franchisors for completing such inspections and preparing the PIPs.

(h) Management Agreement.

(1) The Seller of the Residence Inn and the Seller of the Hampton Inn shall, effective on or before the date of Closing, effect the termination of any management agreements relating to such Properties and pay all costs incurred in connection therewith. The Sellers shall indemnify and hold the Purchaser harmless from any claims or liability relating to any management agreements relating to the Properties.

(2) Provided Purchaser has used commercially reasonable and diligent efforts, Concord Hospitality Enterprises Company shall have approved Purchaser's assumption the Courtyard Management Agreement and the Springhill Suites Management Agreement. The Purchaser shall be responsible for compliance with or compensation required to be paid under all employment laws, including the WARN Act.

(i) Loan Assumptions. Provided Purchaser has used commercially reasonable and diligent efforts, the Purchaser shall received the applicable lender's customary

conditional approval to any Loan Assumption that it has elected to undertake pursuant to Section 2.5.

(j) Courtyard Estoppel. The Seller shall have delivered to the Purchaser a written statement from the lessor under the Courtyard Ground Lease acknowledging the commencement and termination dates of the Courtyard Ground Lease, that there is no material default except as otherwise noted in such written statement, that the Courtyard Ground Lease is in full force and effect except as otherwise noted in such written statement, and that the Courtyard Ground Lease has not been modified (or if it has, stating such modification).

(k) Residence Inn Estoppel. The Seller shall have delivered to the Purchaser a written statement from the condominium association governing the condominium regime at the Residence Inn confirming that there is no existing breach or default except as otherwise noted in such written statement, that the Residence Inn Condominium Documents are in full force and effect except as otherwise noted in such written statement, that the Residence Inn Condominium Documents have not been modified (or if they have, stating such modification), and providing such other pertinent information as the Purchaser may reasonably request.

5.2 Conditions to Seller's Obligations. The Seller's obligations hereunder are subject to the satisfaction of the following conditions precedent with respect to each Property and the compliance by the Purchaser with the following covenants, to the extent applicable to the Purchaser:

(a) Purchaser's Deliveries. The Purchaser shall have delivered to the Title Company or the Sellers, as the case may be, on or before the date of Closing, all of the documents and other information required of the Sellers pursuant to Section 6.3.

(b) Representations, Warranties and Covenants; Obligations of the Sellers; Certificate. All of the Purchaser's representations and warranties made in this Agreement shall be materially true and correct as of the date hereof and as of the date of Closing as if then made, there shall have occurred no material adverse change in the condition of the Properties since the date hereof, the Purchaser shall have performed all of the covenants and other obligations under this Agreement applicable to the Purchaser and the Purchaser shall have executed and delivered to the Purchaser at Closing a certificate to the foregoing effect.

(c) Franchise License. The Licensor for each Property shall have consented to the sale of such Property, and the Purchaser, each respective Seller and each respective Licensor shall have arranged for the assignment and assumption of the respective Licenses or the termination of the existing Licenses and the replacement thereof with new Licenses to which the Purchaser is a party. The applicable Seller, its manager and, if applicable, any guarantor, and each of their respective affiliates, shall have been released from all future duties, liabilities and obligations under the License Agreement and any guarantee(s) thereof, in such form and to such an extent that Licensor customarily provides, if any.

(d) Management Agreement. Concord Hospitality Enterprises Company shall have approved Purchaser's assumption of the Courtyard Management Agreement and the Springhill Suites Management Agreement, which shall include a release from the respective

managers in favor of the applicable Seller and all applicable guarantors, if any, from any and all liability under the Management Agreements from and after the Closing Date.

## ARTICLE 6 CLOSING

### 6.1 Closing.

(a) Closing for the Hampton Inn Hotel shall be conducted through the Title Company or in another manner at a location that is mutually acceptable to the parties, on or before the date that is seven (7) business days following the expiration of the Study Period, as it may be extended pursuant to Section 2.3(e). Closing for the Courtyard and the Springhill Suites Hotels shall occur as described above on or before the date that is seven (7) days following the expiration of the Study Period, as it may be extended pursuant to Section 2.3(e) or (f). Closing for the Residence Inn Hotel shall be conducted through the Title Company or in another manner and at a location that is mutually acceptable to the parties, on or before the date that is sixty (60) days following the expiration of the Study Period, as it may be extended pursuant to Section 2.3(e) (the "Residence Inn Outside Closing Date"). Possession of the Property with respect to the applicable Hotel shall be delivered to the Purchaser at the applicable Closing, subject only to Permitted Title Exceptions and guests of the Hotel.

(b) Upon the last to occur of the Closings for the Hampton Inn, Courtyard and Springhill Suites Hotels, the Seller shall deposit with the Title Company the sum of Four Million and No/100 Dollars (\$4,000,000.00) (the "Breakage Deposit"). In the event that Closing for the Residence Inn Hotel occurs on or before the Residence Inn Outside Closing Date, the Title Company shall release the Residence Inn Breakage Deposit, plus interest accrued thereon to the Seller at the Closing of the Residence Inn Hotel. Notwithstanding anything to the contrary contained herein, the Seller and the Purchaser shall each have the right to refuse to Close on the purchase and sale of the Residence Inn Hotel on or before the Residence Inn Outside Closing Date at its sole discretion by providing the other with notice of such refusal. In the event that the Closing for the Residence Inn Hotel does not occur on or prior to the Residence Inn Outside Closing Date, whether because either party has notified the other of its intention to refuse to Close on the purchase and sale of the Residence Inn Hotel on or before the Residence Inn Outside Closing Date or for any other reason (in any case, a "Residence Inn Termination"), the Title Company shall release to the Purchaser (i) the Breakage Deposit, plus interest accrued thereon, which the Purchaser and the Seller agree will be treated as a Purchase Price adjustment for federal income tax purposes and will be allocated pro rata to reduce the allocable portions of the Purchase Price for the Hotels the Purchaser has acquired under this Agreement and (ii) the remaining one quarter (1/4) of the Deposit allocable to the Residence Inn Hotel, plus interest accrued thereon, and the Seller and the Purchaser shall be released from any further liability or obligation under this Agreement, except under Section 6.1(c) and those other provisions of this Agreement which expressly survive the termination of this Agreement.

(c) Contingent upon a Residence Inn Termination, the Seller hereby grants the Purchaser an option (the "Residence Inn Purchase Option") to purchase the Residence Inn Hotel on the same terms and conditions of this Agreement (as it relates to the Residence Inn Hotel), except that the purchase price for the Residence Inn Hotel shall mean Twenty-Three

Million Two Hundred Thousand and No/100 Dollars (\$23,200,000) (the "Residence Inn Option Price") and no portion of the Deposit shall be credited against the Residence Inn Option Price; provided that the Residence Inn Purchase Option shall be exercisable by the Purchaser only if the Seller provides written notice to the Purchaser within one (1) year after the Residence Inn Outside Closing Date that the debt secured directly and indirectly by the Residence Inn Hotel can be satisfied for an amount equal to or less than the Residence Inn Option Price (the "Option Trigger Notice"). Unless the Purchaser provides written notice (the "Option Exercise Notice") of its intention to exercise the Residence Inn Purchase Option within ten (10) days of the Purchaser's receipt of the Option Trigger Notice, the Purchaser shall be deemed to have waived its right to exercise the Residence Inn Purchase Option. If the Purchaser does provide an Option Exercise Notice to the Seller within ten (10) days of the Purchaser's receipt of the Option Trigger Notice, Closing for the Residence Inn Hotel shall occur on a date reasonably mutually agreed to by the Purchaser and the Seller within Thirty (30) days after the Seller receives the Option Exercise Notice. The Seller agrees to keep the Purchaser reasonably informed of the status of the Seller's negotiations with its lenders regarding the debt secured directly and indirectly by the Residence Inn Hotel during such one-year period and to promptly provide the Option Trigger Notice to the Purchaser if the Seller reaches an agreement with its lenders that would permit it to do so. The grant of the Residence Inn Purchase Option shall survive the closing or termination of this Agreement.

6.2 Sellers' Deliveries. With respect to each Property or each Seller, as applicable, at Closing, the Sellers shall deliver to Purchaser all of the following instruments, each of which shall have been duly executed and, where applicable, acknowledged on behalf of the Sellers and shall be dated as of the date of Closing:

- (a) The certificate required by Section 5.1(b);
- (b) The Deed;
- (c) Assignment and Assumption of the Courtyard Ground Lease only for the Courtyard;
- (d) The Bill of Sale (Inventory);
- (e) The Bill of Sale (Personal Property);
- (f) The Assignment and Assumption Agreement;
- (g) The Assignment and Assumption of the Residence Inn Unit Leases;
- (h) Certificate(s)/Registration of Title for any vehicle owned by the Sellers and used in connection with the Property;
- (i) Such agreements, affidavits or other documents as may be required by the Title Company to issue the Owner's Title Policy with affirmative coverage over mechanics' and materialmen's liens;
- (j) The FIRPTA Certificate;

- (k) True, correct and complete copies of all warranties, if any, of manufacturers, suppliers and installers possessed by the Seller and relating to the Improvements and the Personal Property, or any part thereof;
- (l) Copies of certificate(s) of occupancy for the Real Property and Improvements, issued by the appropriate governmental authority;
- (m) Such proof as the Purchaser may reasonably require with respect to Seller's compliance with the bulk sales laws or similar statutes;
- (n) A written instrument executed by the Seller, conveying and transferring to the Purchaser all of the Seller's right, title and interest in any telephone numbers and facsimile numbers relating to the Property, and, if the Seller maintains a post office box, conveying to the Purchaser all of its interest in and to such post office box and the number associated therewith, so as to assure a continuity in operations and communications;
- (o) All current real estate and personal property tax bills in the Seller's possession or that Seller may reasonably obtain;
- (p) A complete set of all guest registration cards, guest transcripts, guest histories, and all other available guest information;
- (q) A complete list of all advance room reservations, functions and the like, in reasonable detail so as to enable the Purchaser to honor the Sellers' commitments in that regard;
- (r) A list of the Sellers' outstanding accounts receivable as of midnight on the date prior to the Closing, specifying the name of each account and the amount due the Sellers;
- (s) Written notice executed by the Sellers notifying all interested parties, including all tenants under any leases of the Property, that the Property has been conveyed to the Purchaser and directing that all payments, inquiries and the like be forwarded to the Purchaser at the address to be provided by the Purchaser;
- (t) All keys for the Property;
- (u) All books, records, operating reports, appraisal reports, files and other materials in the Sellers' possession or control which are necessary in the Purchasers discretion to maintain continuity of operation of the Property;
- (v) An assignment of all warranties and guarantees from all contractors and subcontractors, manufacturers, and suppliers in effect with respect to the Improvements;
- (w) Complete set of "as-built" drawings for the Improvements, if any in Seller's possession; and
- (x) Any other document or instrument reasonably requested by the Purchaser or required hereby.

6.3 Purchaser's Deliveries. At Closing, the Purchaser shall pay or deliver to the Sellers the following:

- (a) The certificate required by Section 5.2(b);
- (b) The portion of the Purchase Price described in Section 2.4(b);
- (c) Assignment and Assumption of the Courtyard Ground Lease;
- (d) The Bill of Sale (Inventory);
- (e) The Bill of Sale (Personal Property);
- (f) The Assignment and Assumption Agreement;
- (g) The Assignment and Assumption of the Residence Inn Unit Leases; and
- (h) Any other document or instrument reasonably requested by the Sellers or required hereby.

6.4 Closing Costs. All closing costs and expenses will be allocated between Purchaser and Sellers in accordance with the customary practice in the county in which a Property is located, except as allocated specifically between Purchaser and Sellers below. Sellers and Purchaser shall be responsible for the payment of its own attorney's fees incurred in connection with transaction which is the subject of this Agreement.

(a) Purchaser Costs. Purchaser shall pay for: all costs and expenses associated with the inspection and due diligence of the Properties (including, but not limited to, any updated surveys), all costs associated with the assumption of the Assumed Loans (including any mortgage insurance policies and/or endorsements and any applicable mortgage tax or similar expenses), all costs associated with the assignment/ new License Agreement, title insurance for the Residence Inn, the Courtyard, and the Springhill Suites, one-half (.5) of the title insurance for the Hampton Inn, one-half (.5) of New York State and Commonwealth of Pennsylvania, state and county, transfer and recordation tax, and charges required of a purchaser of Residence Inn condominium unit, to the extent required under the Condominium Documents.

(b) Sellers Costs. The Sellers shall pay for: the releases of any deeds of trust, mortgages and other financing encumbering the Property and for any costs associated with any corrective instruments, one-half (.5) of the title insurance for the Hampton Inn, one-half (.5) of New York State and Commonwealth of Pennsylvania, state and county, transfer and recordation tax and charges required of a seller of Residence Inn condominium unit, to the extent required under the Condominium Documents.

6.5 Income and Expense Allocations.

(a) With respect to each Property, all income, except any Intangible Personal Property, and expenses with respect to the Property, and applicable to the period of time before and after Closing, determined in accordance with sound accounting principles consistently



applied, shall be allocated between the Sellers and the Purchaser. The Sellers shall be entitled to all income and responsible for all expenses for the period of time up to but not including the Closing Date, and the Purchaser shall be entitled to all income and responsible for all expenses for the period of time from, after and including the Closing Date. Without limiting the generality of the foregoing, the following items of income and expense shall be allocated at Closing:

- (i) Current and prepaid rents, including, without limitation, prepaid room receipts, function receipts and other reservation receipts;
- (ii) Real estate and personal property taxes;
- (iii) Amounts under Operative Agreements to be assigned to and assumed by Purchaser;
- (iv) Utility charges (including but not limited to charges for water, sewer and electricity);
- (v) License and permit fees, where transferable;
- (vi) Value of fuel stored on the Property at the price paid for such fuel by the Sellers, including any taxes;
- (vii) All prepaid reservations and contracts for rooms confirmed by the Sellers prior to the Closing Date for dates after the Closing Date, all of which Purchaser shall honor;
- (viii) The Tray Ledger, which shall be divided equally between the parties; and
- (ix) Ground rent under the Courtyard Ground Lease.

(b) Each Seller shall receive a credit for any prepaid expenses accruing to periods on or after the Closing Date. At Closing, each Seller shall sell to Purchaser, and Purchaser shall purchase from each Seller, all petty cash funds located at each Property.

(c) The Buyer shall receive the following credit for the refurbishment of each of the Hotels, at the closing of the applicable Hotel: Two Hundred Sixty-Six Thousand Six Hundred Sixty-Six and 66/100 Dollars (\$266,666.66) at the closing for each of the Hampton Inn, Springhill Suites and Courtyard and Four Hundred Thousand and No/100 Dollars (\$400,000.00) for the Residence Inn.

(d) The Sellers shall be required to pay all sales taxes and similar impositions through the date of Closing.

(e) The Purchaser shall not be obligated to collect any accounts receivable or revenues accrued prior to the Closing Date on behalf of the Sellers, but if the Purchaser collects same, the Purchaser will promptly remit to the Sellers such amounts in the form received.

(f) If accurate allocations of any item cannot be made at Closing because current bills are not obtainable, the parties shall allocate such income or expenses at Closing on the best available information, subject to adjustment upon receipt of the final bill or other evidence of the applicable income or expense. Any income received or expense incurred by the Sellers or the Purchaser with respect to the Properties after the date of Closing shall be promptly allocated in the manner described herein and the parties shall promptly pay or reimburse any amount due.

**ARTICLE 7  
CONDEMNATION; RISK OF LOSS**

7.1 Condemnation. With respect to each Property, in the event of any actual or threatened taking, pursuant to the power of eminent domain, of all or any portion of the Real Property, or any proposed sale in lieu thereof, the Sellers shall give written notice thereof to the Purchaser promptly after the Sellers learn or receive notice thereof. If all or any part of the Real which would materially interfere with the operation or use of any Hotel is, or is to be, so condemned or sold, the Purchaser shall have the right to terminate this Agreement pursuant to Section 8.3. If the Purchaser elects not to terminate this Agreement, all proceeds, awards and other payments arising out of such condemnation or sale (actual or threatened) shall be paid or assigned, as applicable, to the Purchaser at Closing.

7.2 Risk of Loss. With respect to each Property, in the event of any fire or other casualty, the Sellers shall give written notice thereof to the Purchaser promptly after the Sellers learn or receive notice thereof. If any such loss or damage occurs prior to Closing and is in excess of One Million and No/Dollars (\$1,000,000.00) or would require more than sixty (60) days to repair, the Purchaser shall have the right to terminate this Agreement pursuant to Section 8.3. If the Purchaser elects not to terminate this Agreement, all insurance proceeds and rights to proceeds arising out of such loss or damage shall be paid or assigned, as applicable, to the Purchaser at Closing and shall pay to Purchaser the amount of any deductible, under applicable insurance policies.

**ARTICLE 8  
LIABILITY OF PURCHASER; LIABILITY OF SELLER;  
TERMINATION RIGHTS**

8.1 Liability of Purchaser and Seller. Except for any obligation expressly assumed or agreed to be assumed by the Purchaser hereunder, the Purchaser does not assume any obligation of the Sellers or any liability for claims arising out of any occurrence prior to Closing. The Seller shall not be responsible for any obligation of the Purchaser or any liability for claims arising out of any occurrence on or after Closing.

8.2 Intentionally Deleted.

8.3 Termination by Purchaser. If the Sellers default in performing any of its obligations under this Agreement (including its obligation to sell the Property), and the Sellers fail to cure any such matter within ten (10) business days after notice thereof from the Purchaser, the Purchaser, at its option, may elect either (a) to terminate this Agreement, in which event the

Deposit shall be forthwith returned to the Purchaser and all other rights and obligations of the Seller and the Purchaser hereunder shall terminate immediately (except those which expressly survive the termination of this Agreement), or (b) to waive its right to terminate and, instead, to proceed to Closing. For avoidance of doubt, the terms of this Section 8.3 shall not apply in the event of Residence Inn Termination as contemplated by Section 6.1(b).

8.4 Termination by Seller. If the Purchaser defaults in performing any of its obligations under this Agreement (including its obligation to purchase the Property), and the Purchaser fails to cure any such default within ten (10) business days after notice thereof from the Sellers, then the Sellers' sole remedy for such default shall be to terminate this Agreement and retain the Deposit. The Sellers and the Purchaser agree that, in the event of such a default, the damages that the Sellers would sustain as a result thereof would be difficult if not impossible to ascertain. Therefore, the Sellers and the Purchaser agree that the Sellers shall retain the Deposit as full and complete liquidated damages and as the Sellers' sole remedy.

## **ARTICLE 9 MISCELLANEOUS PROVISIONS**

9.1 Completeness; Modification. This agreement constitutes the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes all prior discussions, understandings, agreements and negotiations between the parties hereto. This Agreement may be modified only by a written instrument duly executed by the parties hereto.

9.2 Assignments. The Purchaser may assign its rights hereunder without the consent of the Seller to any party under common control of the Purchaser.

9.3 Successors and Assigns. This Agreement shall inure to the benefit of and bind the Purchaser and the Seller and their respective successors and assigns.

9.4 Days. If any action is required to be performed, or if any notice, consent or other communication is given, on a day that is a Saturday or Sunday or a legal holiday in the jurisdiction in which the action is required to be performed or in which is located the intended recipient of such notice, consent or other communication, such performance shall be deemed to be required, and such notice, consent or other communication shall be deemed to be given, on the first (1st) business day following such Saturday, Sunday or legal holiday. Unless otherwise specified herein, all references herein to a "day" or "days" shall refer to calendar days and not business days.

9.5 Governing Law. This Agreement and all documents referred to herein shall be governed by and construed and interpreted in accordance with the laws of the Commonwealth of Pennsylvania.

9.6 Counterparts. To facilitate execution, this Agreement may be executed in as many counterparts as may be required. It shall not be necessary that the signature on behalf of both parties hereto appear on each counterpart hereof. All counterparts hereof shall collectively constitute a single agreement.

9.7 Severability. If any term, covenant or condition of this Agreement, or the application thereof to any person or circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such term, covenant or condition to other persons or circumstances, shall not be affected thereby, and each term, covenant or condition of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

9.8 Costs. Regardless of whether Closing occurs hereunder, and except as otherwise expressly provided herein, each party hereto shall be responsible for its own costs in connection with this Agreement and the transactions contemplated hereby, including without limitation fees of attorneys, engineers and accountants.

9.9 Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be delivered by hand, transmitted by facsimile transmission, sent prepaid by Federal Express (or a comparable overnight delivery service) or sent by the United States mail, certified, postage prepaid, return receipt requested, at the addresses and with such copies as designated below. Any notice, request, demand or other communication delivered or sent in the manner aforesaid shall be deemed given or made (as the case may be) when actually delivered to the intended recipient.

If to the Sellers: Moody National Realty Company, L.P.  
6363 Woodway Drive  
Suite 110  
Houston, Texas 77057  
Attn: Brett C. Moody  
Fax: (713) 977-7505

with a copy to: Moody National Realty Company, L.P.  
6363 Woodway Drive  
Suite 110  
Houston, Texas 77057  
Attn: Amanda Chivers  
Fax: (713) 977-7505

If to the Purchaser: Chatham Lodging Trust  
50 Coconut Row  
Suite 211  
Palm Beach, Florida 33480  
Attn: Jeffrey H. Fisher  
Fax: (561) 659-7318

with a copy to: Hunton & Williams  
1900 K Street, N.W.  
Washington, D.C. 20006  
Attn: John M. Ratino, Esq.  
Fax: (202) 778-2201

Or to such other address as the intended recipient may have specified in a notice to the other party. Any party hereto may change its address or designate different or other persons or entities to receive copies by notifying the other party in the manner described in this Section.

9.10 Incorporation by Reference. All of the exhibits attached hereto are by this reference incorporated herein and made a part hereof.

9.11 Survival. All of the representations, warranties, covenants and agreements of the Seller and the Purchaser made in, or pursuant to, this Agreement shall survive for a period of one (1) year following Closing and shall not merge into any Deed or any other document or instrument executed and delivered in connection herewith.

9.12 Further Assurances. The Sellers and the Purchaser each covenant and agree to sign, execute and deliver, or cause to be signed, executed and delivered, and to do or make, or cause to be done or made, upon the written request of the other party, any and all agreements, instruments, papers, deeds, acts or things, supplemental, confirmatory or otherwise, as may be reasonably required by either party hereto for the purpose of or in connection with consummating the transactions described herein.

9.13 No Partnership. This Agreement does not and shall not be construed to create a partnership, joint venture or any other relationship between the parties hereto except the relationship of seller and purchaser specifically established hereby.

9.14 Time of Essence. Time is of the essence with respect to every provision hereof.

9.15 Confidentiality. The terms and provisions of this Agreement shall remain confidential and shall not be disclosed, by either the Purchaser or the Sellers, to any third (3<sup>rd</sup>) party other than: (a) as may be required by law or regulation or to comply with the filing requirements of any applicable legislation or rule; or (b) any counsel, consultant, or agent assisting the Sellers with the sale of the Properties and any counsel, consultant, or agent assisting the Purchaser with the purchase of the Property; or (c) by Purchaser in any filing with the U.S. Securities and Exchange Commission. If the Purchaser does not proceed with the purchase of the Properties, the Purchaser shall return to the Sellers all materials and information furnished to it by the Sellers or the Sellers' agents in connection with the Purchaser's review of the Properties. The Purchaser acknowledges that the Sellers may solicit additional offers for the purchase of the Property in the event that the Purchaser is unwilling or unable to consummate the Closing.

9.16 No Third-Party Beneficiary. The provisions of this Agreement and of the documents to be executed and delivered at Closing are and will be for the benefit of the Sellers and the Purchaser only and are not for the benefit of any third (3<sup>rd</sup>) party, and accordingly, no third (3<sup>rd</sup>) party shall have the right to enforce the provisions of this Agreement or of the documents to be executed and delivered at Closing.

9.17 Waiver of Jury Trial. The Sellers and the Purchaser each hereby waive any right to jury trial in connection with the enforcement by the Purchaser, or the Sellers, of any of their respective rights and remedies hereunder.

9.18 Title Company.

(a) The Title Company agrees to hold the Deposit in accordance with the terms hereof and to comply with additional written instructions from the parties, to the extent that such instructions are not in conflict.

(b) If the Title Company is uncertain for any reason whatsoever as to its duties or rights hereunder, the Title Company shall continue to hold the Deposit until the Title Company receives a written agreement of both parties with respect to disposition of the Deposit, in which event Title Company shall distribute the Deposit in accordance with such agreement; or in the event of litigation between or among the parties, the Title Company shall continue to hold the Deposit until such time as the parties resolve their dispute or such dispute is resolved by judicial or other proceedings.

(c) Acceptance by the Title Company of its duties under this Agreement is subject to the following terms and conditions:

(i) The duties and obligations of the Title Company shall be determined solely by the provisions of this Agreement and any written instruction from the parties consistent with this Agreement that are not in conflict, and the Title Company shall not be liable except for the performance of such duties and obligations as are specifically set out in this Agreement or such instructions;

(ii) The Sellers and the Purchaser will jointly and severally reimburse and indemnify the Title Company for, and hold it harmless against any loss, liability or expense, including but not limited to reasonable attorneys' fees, incurred without bad faith, negligence or willful misconduct on the part of the Title Company, arising out of or in connection with any dispute or conflicting claim by the Sellers or the Purchaser under this Agreement, as well as the costs and expense of defending against any claim or liability arising out of or relating to this Agreement except where such claim or liability arises from the bad faith, negligence or willful misconduct on the part of the Title Company; as between the Sellers (on the one hand) and the Purchaser (on the other hand) their obligations under this subsection 9.18(c)(ii) shall be shared equally;

(iii) The Title Company shall be fully protected in acting on and relying upon any written notice, instruction, direction or other document which the Title Company in good faith believes to be genuine and to have been signed or presented by the proper party or parties;

(iv) The Title Company may seek the advice of legal counsel in the event of any dispute or question as to the construction of any of the provisions of this Agreement or its duties hereunder, and it shall incur no liability and shall be fully protected in respect of any action taken or suffered by it in good faith in accordance with the opinion of such counsel;

(v) The Title Company may resign and be discharged from its duties hereunder at any time by giving written notice of such resignation to each of the Purchaser and the Sellers specifying a date, not less than thirty (30) days after the date of

such notice, when such resignation will take effect. Upon the effective date of such resignation, the Title Company shall deliver the funds held in escrow to such person or persons as the Purchaser and the Sellers shall in writing jointly direct, and upon such delivery the Title Company shall be relieved of all duties and liabilities thereafter accruing under this Agreement. The Purchaser and the Sellers shall have the right at any time upon joint action to substitute a new Title Company by giving notice thereof to the Title Company then acting;

(vi) Nothing contained in this Agreement shall in any way affect the right of the Title Company to have at any time a judicial settlement of its accounts as Title Company under this Agreement;

(vii) All disbursements by Title Company shall be made by bank wire transfer to the account of the receiving party, as such party may direct;

(viii) The Title Company shall, at the Closing, deliver by overnight express delivery (or hold for personal pickup, if requested), each non-recorded document received hereunder by Title Company to the payee or person acquiring rights under said document or for whose benefit said document was acquired; and

(ix) The Title Company shall, at the Closing, hold for personal pickup or arrange for wire transfer, (i) to Seller, or order, as instructed by Seller, all sums and any proration or other credits to which Seller is entitled and less any appropriate proration or other charges, and (ii) to Purchaser, or order, any excess funds theretofore delivered to Title Company by Purchaser and all sums and any proration or other credits to which Purchaser is entitled and less any appropriate proration or other charges.

9.19 Related Transaction. Except as provided under Section 6.1(b), Sellers and Purchaser acknowledge and agree that this Agreement is for the sale of the portfolio of all of the Properties. Notwithstanding anything in this Agreement to the contrary, Purchaser's failure to close on the purchase of any Property shall be cause for Sellers to terminate this Agreement, in which event the Deposit shall be disbursed in accordance with the terms of this Agreement. Purchaser's termination of this Agreement prior to the end of the Study Period for any Property shall operate to terminate the sale of all of the Property as contemplated by this Agreement.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the Sellers and the Purchaser have caused this Agreement to be executed in their names by their respective duly-authorized representatives.

**SELLERS:**

MOODY NATIONAL WHITE PLAINS S, LLC, A  
DELAWARE LIMITED LIABILITY COMPANY

By: /s/ Brett C. Moody  
Name: Brett C. Moody  
Title: President

MOODY NATIONAL WHITE PLAINS MT, LLC, A  
DELAWARE LIMITED LIABILITY COMPANY

By: /s/ Brett C. Moody  
Name: Brett C. Moody  
Title: President

MOODY NATIONAL 1715 OST HOUSTON S, LLC, A  
DELAWARE LIMITED LIABILITY COMPANY

By: /s/ Brett C. Moody  
Name: Brett C. Moody  
Title: President

MOODY NATIONAL 1715 OST HOUSTON MT, LLC, A  
\_\_\_\_\_ LIMITED LIABILITY COMPANY

By: /s/ Brett C. Moody  
Name: Brett C. Moody  
Title: President

[PURCHASE AND SALE AGREEMENT SIGNATURE PAGE]

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MOODY NATIONAL CY ALTOONA PA, LLC, A  
DELAWARE LIMITED LIABILITY COMPANY

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

MOODY NATIONAL SHS WASHINGTON PA, LLC, A  
DELAWARE LIMITED LIABILITY COMPANY

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PURCHASER:**

CHATHAM LODGING TRUST, A MARYLAND REAL ESTATE  
INVESTMENT TRUST

By: /s/ Peter M. Willis \_\_\_\_\_  
Name: Peter M. Willis  
Title: Executive Vice President &  
Chief Investment Officer

Title Company executes this Agreement below solely for the purpose of acknowledging that it agrees to be bound by the provisions of this Agreement relating to Title Company and the holding and disbursement of the Deposit.

**TITLE COMPANY:**

By: /s/ R. Eric Taylor \_\_\_\_\_  
Name: R. Eric Taylor  
Title: Vice President & Senior Counsel

[PURCHASE AND SALE AGREEMENT SIGNATURE PAGE]

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**EXHIBIT A**

**SELLERS AND PROPERTIES**

<b>Seller</b>	<b>Site Name</b>	<b>Location</b>
MOODY NATIONAL WHITE PLAINS S, LLC, a Delaware limited liability company ( <i>Real Property — All Units excluding 202, 206, 302, 306, 310, 501, 506, 910, 1004, 1102, 1107, 1207, 1209, 1602, 304, 607 and 704</i> )	Residence Inn White Plains, New York	5 Barker Avenue White Plains, New York 10601
MOODY NATIONAL COMPANIES, L.P., a Texas limited partnership ( <i>Real Property — Units 304, 607 and 704</i> )		<b>[NOTE: This includes the sale of 129 of 143 Residential Units and all 4 Commercial Units of La Reserve Condominium. In addition, the Purchaser will be assuming the Residence Inn Unit Leases in accordance with Article 6].</b>
MOODY NATIONAL WHITE PLAINS MT, LLC, a Delaware limited liability company ( <i>Personal Property</i> )		
MOODY NATIONAL 1715 OST HOUSTON S, LLC, a Delaware limited liability company ( <i>Real Property</i> )	Hampton Inn & Suites Medical Center Houston, Texas	1715 Old Spanish Trail Houston, Texas 77054
MOODY NATIONAL 1715 OST HOUSTON MT, LLC, a Delaware limited liability company ( <i>Personal Property</i> )		
MOODY NATIONAL CY ALTOONA PA, LLC, a Delaware limited liability company	Courtyard by Marriott Altoona, Pennsylvania	2 Convention Centre Drive Altoona, Pennsylvania 16602
MOODY NATIONAL SHS WASHINGTON PA, LLC, a Delaware limited liability company	Springhill Suites Washington, Pennsylvania	16 Trinity Point Drive Washington, Pennsylvania 15301

AGREEMENT OF PURCHASE

AND SALE

dated as of June 17, 2010

between

HOLTSVILLE HOTEL GROUP LLC,  
a Delaware limited liability company

and

FB HOLTSVILLE UTILITY LLC,  
a Delaware limited liability company

as Seller,

and

CHATHAM HOLTSVILLE RI LLC,  
a Delaware limited liability company

as Purchaser

Residence Inn Long Island Holtsville  
Holtsville, New York

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**TABLE OF CONTENTS**

	Page No.
ARTICLE 1 DEFINITIONS; RULES OF CONSTRUCTION	1
1.1 Definitions	1
1.2 Rules of Construction	7
ARTICLE 2 PURCHASE AND SALE; DEPOSIT; PAYMENT OF PURCHASE PRICE	7
2.1 Purchase and Sale	7
2.2 Deposit	7
2.3 Study Period	7
2.4 Payment of Purchase Price	11
ARTICLE 3 SELLER’S REPRESENTATIONS, WARRANTIES AND COVENANTS	11
3.1 Organization and Power	11
3.2 Authorization and Execution	11
3.3 Noncontravention	12
3.4 No Special Taxes	12
3.5 Compliance with Existing Laws	12
3.6 Operative Agreements and Utility Operative Agreements	12
3.7 Warranties and Guaranties	13
3.8 Insurance	13
3.9 Condemnation Proceedings; Roadways	14
3.10 Litigation	14
3.11 Labor Disputes and Agreements	14
3.12 Operation of Property and Utility Property	14
3.13 Personal Property	15
3.14 Bankruptcy	15
3.15 Sewage Facilities	15
3.16 Intentionally Deleted	15
3.17 Hazardous Substances	15
3.18 Intentionally Deleted	15
3.19 Independent Audit	15
3.20 Bulk Sale Compliance	15
3.21 Liquor License	15
3.22 Holtsville Utility Ground Lease	16
3.23 Holtsville Retail Ground Lease	16
3.24 Reciprocal Easement Agreement	16
3.25 Money Laundering	16
ARTICLE 4 PURCHASER’S REPRESENTATIONS, WARRANTIES AND COVENANTS	18
4.1 Organization and Power	18

	Page No.
4.2 Authorization and Execution	19
4.3 Noncontravention	19
4.4 Litigation	19
4.5 Bankruptcy	19
4.6 Money Laundering	19
 ARTICLE 5 CONDITIONS AND ADDITIONAL COVENANTS	 20
5.1 Conditions to Purchaser's Obligations	20
5.2 Conditions to Seller's Obligations	21
 ARTICLE 6 CLOSING	 21
6.1 Closing	21
6.2 Seller's Deliveries	21
6.3 Purchaser's Deliveries	23
6.4 Closing Costs	24
6.5 Income and Expense Allocations	24
6.6 Guest Property	26
 ARTICLE 7 CONDEMNATION; RISK OF LOSS	 26
7.1 Condemnation	26
7.2 Risk of Loss	27
 ARTICLE 8 LIABILITY OF PURCHASER; LIABILITY OF SELLER; TERMINATION RIGHTS	 27
8.1 Liability of Purchaser and Seller	27
8.2 Intentionally Deleted	27
8.3 Indemnification by Purchaser	27
8.4 Termination by Purchaser	27
8.5 Termination by Seller	28
 ARTICLE 9 "AS-IS" SALE	 28
 ARTICLE 10 MISCELLANEOUS PROVISIONS	 28
10.1 Completeness; Modification	28
10.2 Assignments	29
10.3 Successors and Assigns	29
10.4 Days	29
10.5 Governing Law	29
10.6 Counterparts	29
10.7 Severability	29
10.8 Costs	30
10.9 Notices	30
10.10 Incorporation by Reference	31
10.11 Further Assurances	31
10.12 No Partnership	31
10.13 Time of Essence	31
10.14 Confidentiality	31

10.15 No Third-Party Beneficiary	Page No. 32
10.16 Waiver of Jury Trial	32
10.17 Exculpation	32
10.18 Title Company	32
10.19 Prevailing Party	34
10.20 [Intentionally Deleted]	34
10.21 Brokerage	34
10.22 Exchange Provisions	35
10.23 No Recording	35
10.24 No Continued Marketing of the Hotel for Sale	35

LIST OF EXHIBITS

Exhibit A — Seller and Property
Exhibit B — Legal Descriptions of Land
Exhibit C — Insurance Policies
Exhibit D — Operative Agreements
Exhibit E — Existing Warranties and Guaranties
Exhibit F — Form of Assignment and Assumption Agreement (Operative Agreements)
Exhibit G — Form of Assignment and Assumption Agreement (Ground Leases)
Exhibit H — Form of Bill of Sale (Inventory)
Exhibit I — Form of Bill of Sale (Personal Property)
Exhibit J — Form of Deed
Exhibit K — Permitted Exceptions
Exhibit L — Wiring Instructions
Exhibit M — Form of Representative Letter
Exhibit N — Form of Utility Assignment Assumption Agreement (Utility Operative Agreements)
Exhibit O — Form of Utility Assignment Assumption Agreement (Utility Ground Lease)
Exhibit P — Form of Utility Bill of Sale
Exhibit Q — Form of Utility Deed
Exhibit R — Utility Insurance Policies
Exhibit S — Utility Operative Agreements
Exhibit T — Term Sheet for Ground Lease Amendment
Exhibit U — Term Sheet for Three Party Agreement

AGREEMENT OF PURCHASE AND SALE

THIS AGREEMENT OF PURCHASE AND SALE ("Agreement"), dated as of the 17th day of June, 2010, between HOLTSVILLE HOTEL GROUP LLC, a Delaware limited liability company (the "Hotel Seller") FB HOLTSVILLE UTILITY LLC, a Delaware limited liability company (the "Utility Seller" and, together with the Hotel Seller, the "Seller"), and CHATHAM HOLTSVILLE RI LLC, a Delaware limited liability company (the "Purchaser"), provides:

**ARTICLE 1  
DEFINITIONS; RULES OF CONSTRUCTION**

1.1 Definitions.

The following terms shall have the indicated meanings:

"Act of Bankruptcy" means if a party hereto shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its Property, (b) admit in writing its inability to pay its debts as they become due, (c) make a general assignment for the benefit of its creditors, (d) file a voluntary petition or commence a voluntary case or proceeding under the Federal Bankruptcy Code (as now or hereafter in effect), (e) be adjudicated a bankrupt or insolvent, (f) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, (g) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case or proceeding under the Federal Bankruptcy Code (as now or hereafter in effect), or (h) take any limited liability company, trust or corporate action for the purpose of effecting any of the foregoing; or if a proceeding or case shall be commenced, without the application or consent of a party hereto, in any court of competent jurisdiction seeking (1) the liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of debts, of such party, (2) the appointment of a receiver, custodian, trustee or liquidator of such party or all or any substantial part of its assets, or (3) other similar relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case shall continue undismissed; or an order (including an order for relief entered in an involuntary case under the Federal Bankruptcy Code, as now or hereafter in effect) judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of sixty (60) consecutive days.

"Additional Deposit" has the meaning set forth in Section 2.2.

"Agreement" has the meaning set forth in the Preamble hereto.

"Assignment and Assumption Agreement (Operative Agreements)" means the assignment and assumption agreement whereby the Hotel Seller assigns and the Purchaser's Hotel Lessee assumes the Operative Agreements, in the form annexed hereto as Exhibit F.

"Assignment and Assumption Agreement (Ground Leases)" means the assignment and assumption agreement whereby the Hotel Seller assigns and Purchaser assumes the lessor's

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interest in the Holtsville Retail Ground Lease and the Holtsville Utility Ground Lease, in the form annexed hereto as Exhibit G.

“Authorizations” means all licenses, permits and approvals required by any governmental or quasi-governmental agency, body or officer for the ownership, operation and use of the Property or any part thereof.

“Bill of Sale (Inventory)” means the bill of sale conveying title to the Inventory to the Purchaser’s Hotel Lessee, in the form annexed hereto as Exhibit H.

“Bill of Sale (Personal Property)” means the bill of sale conveying title to the Tangible Personal Property, and the Intangible Personal Property, to the extent assignable, from the Hotel Seller to the Purchaser, in the form annexed hereto as Exhibit I.

“Closing” means a consummation of a purchase and sale of the Property and the Utility Property pursuant to this Agreement.

“Closing Date” means the date on which a Closing occurs, but in no event later than the dates identified in Section 6.1.

“Commission” has the meaning set forth in Section 3.19.

“Deed” means a bargain and sale deed [with] covenants against grantor’s acts conveying title to the Real Property from the Hotel Seller to the Purchaser, subject only to Permitted Title Exceptions, taxes not yet due and payable and matters identified by the Survey, in the form attached hereto as Exhibit J.

“Deposit” has the meaning set forth in Section 2.2.

“Executive Order” has the meaning set forth in Section 3.25.

“FIRPTA Certificate” means the affidavit of the Hotel Seller, pursuant to Section 1445 of the Internal Revenue Code, certifying that the Hotel Seller is not a foreign corporation, foreign partnership, foreign trust, foreign estate or foreign person (as those terms are defined in the Internal Revenue Code and the Income Tax Regulations), in such form and substance as the Purchaser and the Hotel Seller shall mutually agree.

“Franchise Agreement” means that certain Franchise Agreement dated as of February 3, 2003 originally between Licensor and Holtsville Hotel Associates, LLC.

“Governmental Body” means any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign.

“Government List” has the meaning set forth in Section 3.25.

“Hazardous Substances” has the meaning set forth in Section 3.17.

“Holtsville Retail Ground Lease” has the meaning set forth in Section 3.23.



“Holtsville Utility Ground Lease” has the meaning set forth in Section 3.22.

“Hotel” means the hotel named on Exhibit A hereto and the related amenities and appurtenances thereto.

“Hotel Land” means the Land excluding the portion thereof leased under the Holtsville Retail Ground Lease and the Holtsville Utility Ground Lease.

“Hotel Seller” has the meaning set forth in the preamble hereto.

“Improvements” means the Hotel and all other buildings, improvements, fixtures and other items of real estate located on the Hotel Land.

“Initial Deposit” has the meaning set forth in Section 2.2.

“Insurance Policies” means those certain policies of insurance described on Exhibit C attached hereto.

“Intangible Personal Property” means all intangible personal property owned by the Hotel Seller and used in connection with the ownership, operation, leasing, occupancy or maintenance of the Property, including, without limitation, to the extent of Hotel Seller’s rights therein, the right to use the trade name associated with the Property and all variations thereof (subject to the Licensor’s consent to the transfer of the Franchise Agreement), the Authorizations, escrow accounts (only to the extent that the Hotel Seller receives a credit for amounts in any escrow accounts), general intangibles, business records, plans and specifications, surveys pertaining to the Real Property, all licenses, permits and approvals with respect to the construction, ownership, operation, leasing, occupancy or maintenance of the Property (to the extent transferable), any unpaid award for taking by condemnation or any damage to the Land by reason of a change of grade or location of or access to any street or highway, and the share of the Tray Ledger determined under Section 6.5, excluding (a) any of the aforesaid rights the Purchaser elects not to acquire, (b) the Hotel Seller’s cash on hand, in bank accounts and invested with financial institutions, and (c) accounts receivable except for the above described share of the Tray Ledger.

“Inventory” means all inventory located at the Hotel and owned by the Hotel Seller, including without limitation, all mattresses, pillows, bed linens, towels, paper goods, soaps, cleaning supplies and other such supplies, subject to such depletions, substitutions and replacements as shall occur and be made in the ordinary course of business prior to the Closing Date.

“Knowledge” shall mean the actual knowledge of Susan Griffin after discussions with the manager of the Hotel, without any other duty of inquiry or investigation. For the purposes of this definition, the term “actual knowledge” means, with respect to any person, the conscious awareness of such person at the time in question, and expressly excludes any constructive or implied knowledge of such person.

“Land” means the land legally described on Exhibit B attached hereto, together with all easements, rights, privileges, remainders, reversions and appurtenances thereunto belonging or in any way appertaining thereto, now or hereafter acquired.

“Licensor” means Marriott International, Inc.

“Management Agreement” means that certain Development and Management Agreement by and between Manager and Hotel Seller (as successor in interest to Holtsville Hotel Associates, LLC, a Delaware limited liability company), dated as of August 25, 2003, as assigned to the Hotel Seller, respecting the management of the Property.

“Manager” means Colwen Management, Inc.

“Operative Agreements” means those contracts, supply contracts, leases and other agreements listed on Exhibit D annexed hereto.

“Owner’s Title Policy” means an owner’s policy of title insurance issued to the Purchaser by the Title Company, pursuant to which the Title Company insures the Purchaser’s ownership of fee simple title to the Real Property subject only to Permitted Title Exceptions.

“Permitted Title Exceptions” means (i) those items listed on Exhibit K attached hereto, and (ii) those exceptions to title to the Real Property and the Utility Improvements that are not objected to or deemed waived by the Purchaser as provided for in Section 2.3 hereof.

“PIP” means the property improvement plan for the Hotel provided by the Licensor and applied for by the Seller in connection with the transaction contemplated by this Agreement.

“Property” means, collectively, the Real Property, the Inventory, the Tangible Personal Property and the Intangible Personal Property.

“Purchase Price” means Twenty-One Million Three Hundred Thousand and No/Dollars (\$21,300,000.00).

“Purchaser” has the meaning set forth in the Preamble hereto.

“Purchaser’s Hotel Lessee” means Chatham Holtsville RI Leaseco LLC, a Delaware limited liability company.

“REA” has the meaning set forth in Section 3.24.

“Real Property” means the Land and the Improvements.

“Seller” has the meaning set forth in the Preamble hereto.

“Seller’s Organizational Documents” means the current limited liability company agreements and certificates of formation of the Seller.

“Sewage Facilities” means the sewage treatment facilities located on the land leased pursuant to the Holtsville Utility Ground Lease.

“Study Period” means the period commencing at 9:00 a.m. on the date following the date hereof, and continuing through 5:00 p.m. on the date that is thirty (30) days from the date hereof.

“Survey” has the meaning set forth in Section 2.3(d). If there is a discrepancy between the description of the Land attached hereto as Exhibit B and the description of the Land as shown on the Survey, the survey shall confirm that the separate property descriptions each identify the Property.

“Survival Period” has the meaning set forth in the last paragraph of Article 3.

“Tangible Personal Property” means the items of tangible personal property consisting of all furniture, fixtures and equipment situated on, attached to, or used in the operation of the Hotel, and all furniture, furnishings, equipment, machinery, and other personal property of every kind located on the Property or used in the operation of the Hotel and owned by the Hotel Seller, subject to such depletions, substitutions and replacements as shall occur and be made in the ordinary course of business prior to the Closing Date.

“Title Company” means Chicago Title Insurance Company, through its Washington, DC office.

“Tray Ledger” means the final night’s room revenue of the Hotel (revenue from rooms occupied as of 12:01 a.m. on the Closing Date, exclusive of food, beverage, telephone and similar charges which shall be retained by the Hotel Seller), including any sales taxes, room taxes or other taxes thereon.

“Utilities” means public sanitary and storm sewers, natural gas, telephone, public water facilities, electrical facilities and all other utility facilities and services necessary for the operation and occupancy of the Property as a hotel.

“Utility Assignment and Assumption Agreement (Utility Operative Agreements)” means the assignment and assumption agreement whereby the Utility Seller assigns and the Utility Purchaser assumes the Utility Operative Agreements, in the form annexed hereto as Exhibit N.

“Utility Assignment and Assumption Agreement (Utility Ground Lease)” means the assignment and assumption agreement whereby the Utility Seller assigns and the Utility Purchaser assumes the lessee’s interest in the Holtsville Utility Ground Lease, in the form annexed hereto as Exhibit O.

“Utility Authorizations” means all licenses, permits and approvals required by any governmental or quasi-governmental agency, body or officer for the ownership, operation and use of the Utility Property or any part thereof.

“Utility Bill of Sale” means the bill of sale conveying title to the Utility Tangible Personal Property and the Utility Intangible Personal Property, to the extent assignable, from the Utility Seller to the Utility Purchaser in the form annexed hereto as Exhibit P.

“Utility Deed” means a bargain and sale deed with covenants against grantor’s acts conveying title to the Utility Improvements from the Utility Seller to the Utility Purchaser,

subject only to Permitted Title Exceptions, taxes not yet due and payable and matters identified by the Survey, in the form attached hereto as Exhibit Q.

“Utility FIRPTA Certificate” means the affidavit of the Utility Seller, pursuant to Section 1445 of the Internal Revenue Code, certifying that the Utility Seller is not a foreign corporation, foreign partnership, foreign trust, foreign estate or foreign person (as those terms are defined in the Internal Revenue Code and the Income Tax Regulations), in such form and substance as the Purchaser and the Utility Seller shall mutually agree.

“Utility Land” means the leasehold interest in the portion of the Land leased under the Holtsville Utility Ground Lease.

“Utility Improvements” means the Sewage Facilities and all other buildings, improvements, fixtures and other items of real estate located on the Utility Land.

“Utility Insurance Policies” means those certain policies of insurance described on Exhibit R attached hereto.

“Utility Intangible Personal Property” means all intangible personal property owned by the Utility Seller and used in connection with the ownership, operation, or maintenance of the Utility Property.

“Utility Operative Agreements” means those contracts, supply contracts, leases and other agreements listed on Exhibit S annexed hereto.

“Utility Owner’s Title Policy” means an owner’s policy of title insurance issued to the Utility Purchaser by the Title Company, pursuant to which the Title Company insures the Utility Purchaser’s ownership of fee simple title to the Utility Improvements and leasehold title to the Utility Land subject only to Permitted Title Exceptions.

“Utility Property” means, collectively, the Utility Real Property, the Utility Tangible Personal Property and the Utility Intangible Personal Property.

“Utility Purchaser” means Chatham Holtsville RI Utility LLC.

“Utility Real Property” means the Utility Land and the Utility Improvements.

“Utility Seller” has the meaning set forth in the preamble hereto.

“Utility Tangible Personal Property” means the items of tangible personal property consisting of all furniture, fixtures and equipment situated on, attached to, or used in the operation of the Sewage Facilities, and all furniture, furnishings, equipment, machinery, and other personal property of every kind located on the Utility Property or used in the operation of the Sewage Facilities and owned by the Utility Seller, subject to such depletions, substitutions and replacements as shall occur and be made in the ordinary course of business prior to the Closing Date.

“WARN Act” means the Worker Adjustment and Retraining Notification Act of 1988.

## 1.2 Rules of Construction.

The following rules shall apply to the construction and interpretation of this Agreement:

(a) Singular words shall connote the plural number as well as the singular and vice versa, and the masculine shall include the feminine and the neuter.

(b) All references herein to particular articles, sections, subsections, clauses or exhibits are references to articles, sections, subsections, clauses or exhibits of this Agreement.

(c) The table of contents and headings contained herein are solely for convenience of reference and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

(d) Each party hereto and its counsel have reviewed and revised (or requested revisions of) this Agreement, and therefore any usual rules of construction requiring that ambiguities are to be resolved against a particular party shall not be applicable in the construction and interpretation of this Agreement or any exhibits hereto.

## **ARTICLE 2 PURCHASE AND SALE; DEPOSIT; PAYMENT OF PURCHASE PRICE**

2.1 Purchase and Sale. The Hotel Seller agrees to sell to the Purchaser the Property and the Utility Seller agrees to sell to the Utility Purchaser the Utility Property and the Purchaser agrees to purchase from the Hotel Seller the Property and to cause Utility Purchaser to purchase from the Utility Seller the Utility Property, both for the Purchase Price, in accordance with the terms and conditions set forth herein.

2.2 Deposit. Simultaneously with the full execution of this Agreement, the Purchaser will deposit in escrow with the Title Company, by wire transfer of immediately available federal funds sent in accordance with the wiring instructions annexed hereto as Exhibit L, the sum of Five Hundred Thousand and No/Dollars (\$500,000.00) as an earnest money deposit (the "Initial Deposit"). Not later than the last day of the Study Period, if the Purchaser elects to proceed with the purchase of the Property in accordance with the terms of this Agreement, the Purchaser will deposit in escrow with the Title Company, by wire transfer of immediately available federal funds sent in accordance with the wiring instructions annexed hereto as Exhibit L an additional sum of Five Hundred Sixty-Five Thousand and No/Dollars (\$565,000.00) as additional earnest money (the "Additional Deposit", and together with the Initial Deposit, the "Deposit"). The Deposit shall be invested by the Title Company in an interest-bearing account reasonably acceptable to the Purchaser and the Seller (the Seller and the Purchaser acknowledge that an account at JPMorgan Chase Bank is acceptable). Following the expiration of the Study Period, the Deposit shall be non-refundable to Purchaser, except in the event of Seller default, failure of a condition precedent in favor of Purchaser or termination of this Agreement pursuant to Section 2.3(d). All interest earned on the Deposit shall be paid over to the party entitled to the receipt of the Deposit under the terms of this Agreement.

## 2.3 Study Period.

(a) The Purchaser shall have the right during the Study Period (and thereafter if the Purchaser notifies the Seller that the Purchaser has elected to proceed to Closing in the manner described below) upon not less than one (1) business day prior notice to the Seller, to enter upon the Real Property and the Utility Real Property and to perform, at the Purchaser's expense, such economic, surveying, engineering, environmental, topographic and marketing tests, studies and investigations as the Purchaser may deem appropriate; provided, however, that (i) the Purchaser shall not be permitted to enter upon the Real Property or the Utility Real Property to perform any such tests, studies and investigations unless and until the Purchaser delivers to Seller evidence that the Purchaser has obtained liability insurance in the amount of not less than and Two Million and No/Dollars (\$2,000,000.00) for property damage and bodily injury, which insurance shall name the Seller and the Seller's managing agent as additional insureds, and which insurance shall be maintained by the Purchaser at all times as it shall enter on the Real Property or the Utility Real Property, and (ii) in the event Closing does not occur, at Seller's request, the Purchaser shall provide the Seller with copies of all third party reports prepared by or for the Purchaser or the Utility Purchaser. If such tests, studies and investigations warrant, in the Purchaser's sole, absolute and unreviewable discretion, the purchase of the Property for the purposes contemplated by the Purchaser, then the Purchaser may elect to proceed to Closing and shall so notify the Seller prior to the expiration of the Study Period (provided that the Closing Date shall not be advanced if the Purchaser shall notify the Seller prior to the end of the scheduled Study Period that it elects to proceed to Closing), in which event the Purchaser shall also deposit the Additional Deposit with the Title Company by the last day of the Study Period in accordance with the provisions of Section 2.2 above. If for any reason the Purchaser does not (i) so notify the Seller of its determination to proceed to Closing prior to the expiration of the Study Period and (ii) timely deposit the Additional Deposit with the Title Company in accordance with provisions of Section 2.2 above, or if the Purchaser notifies the Seller, in writing, prior to the expiration of the Study Period that it has determined not to proceed to Closing, this Agreement shall automatically terminate, the Deposit shall be returned to the Purchaser and upon return of the Deposit, the Purchaser shall be released from any further liability or obligation under this Agreement, except those which expressly survive the termination of this Agreement.

(b) During the Study Period, the Seller shall make available to the Purchaser, its designated agents, auditors, engineers, attorneys and other designees, for inspection copies of all existing architectural and engineering studies, surveys, title insurance policies, zoning and site plan materials, environmental audits, documentation and information related to the ownership or operation of the Hotel and the Sewage Facilities, and other materials or information, if any, relating to the Property or the Utility Property which are in the Seller's possession or control. Notwithstanding the foregoing or anything contained in this Agreement, the Seller shall not be obligated to deliver to the Purchaser any materials of a proprietary or confidential nature. Purchaser acknowledges that, except as otherwise herein provided, any such materials delivered to the Purchaser pursuant to this provision shall be without warranty, representation or recourse.

(c) The Purchaser shall indemnify, hold harmless and defend the Seller and the Seller's Affiliates (as hereinafter defined) against any loss, damage or claim arising from entry upon the Real Property by the Purchaser or any agents, contractors, subcontractors or employees of the Purchaser. The Purchaser understands and accepts that any on-site inspections of the Real Property or the Utility Real Property shall occur at reasonable times agreed upon by

the Seller and the Purchaser after not less than one (1) business day prior notice to the Seller and shall be conducted so as not to interfere unreasonably with the operation of the Property or the Utility Property and the use of the Property by the tenants and the guests of the Hotel. The Seller shall have the right to have a representative present during any such inspections. If the Purchaser desires to do any invasive testing at the Real Property or the Utility Real Property, the Purchaser shall do so only after obtaining the prior written consent of Seller, which approval may be subject to reasonable terms and conditions as may be proposed by the Seller. The Purchaser shall not permit any liens to attach to the Property or the Utility Real Property by reason of such inspections. The Purchaser shall (i) restore the Property and the Utility Real Property, at its own expense, to substantially the same condition which existed prior to any inspections or other activities of the Purchaser thereon; and (ii) be responsible for and pay and caused to be discharged any and all liens by contractors, subcontractors, materialmen, or laborers performing the inspections or any work for the Purchaser or any agent, contractor, subcontractor or employee of the Purchaser the Purchaser Parties on or related to the Property or the Utility Real Property. The terms of this Section 2.3(c) shall survive the termination of this Agreement.

(d) During the Study Period, the Purchaser, at its expense, shall (i) cause an examination of title to the Real Property and the Utility Real Property to be made by the Real Title Company, and (ii) obtain and deliver to the Seller an update of the existing survey of the Real Property and the Utility Real Property delivered to the Purchaser or a new survey (any such updated survey or new survey being referred to as the “Survey”) and, five (5) business days prior to the expiration of the Study Period, shall notify the Seller of any defects in title shown by such examination or by such Survey that the Purchaser is unwilling to accept (other than those items listed on Exhibit K attached hereto). Within four (4) business days after such notification, the Seller shall notify the Purchaser whether the Seller is willing to cure such defects. If the Seller is willing to cure such defects, the Seller shall cure such defects at its expense prior to the Closing; provided that the Seller shall have the right to extend the Closing Date for up to thirty (30) days in order to cure such defects. If such defects consist of deeds of trust, mechanics’ liens, tax liens or other liens or charges in a fixed sum or capable of computation as a fixed sum, the Seller shall pay and discharge (and the Title Company is authorized to pay and discharge at Closing) such defects at Closing (provided that any mechanics’ liens may be discharged by bonding or by depositing sufficient funds with the Title Company such that the Title Company does not include such mechanics’ liens as exceptions to the title policy). If the Seller is unwilling or unable to cure any other such defects by Closing, the Purchaser shall elect (1) to waive such defects and proceed to Closing without any abatement in the Purchase Price or (2) to terminate this Agreement and receive a full refund of the Deposit. If, with respect to defects that Seller has notified Purchaser that it is unwilling to cure, Purchaser shall not notify Seller of such election within two (2) days of Seller’s notice to Purchaser, Purchaser shall be deemed to have elected to waive such defects and proceed to Closing. The Seller shall not, after the date of this Agreement, subject the Property to any liens, encumbrances, covenants, conditions, restrictions, easements or other title matters or seek any zoning changes or take any other action which affect or modify the status of title without the Purchaser’s prior written consent. All title matters revealed by the Purchaser’s title examination and by the Survey and not listed on Exhibit K attached hereto or objected to by the Purchaser as provided above shall be deemed Permitted Title Exceptions. If Purchaser shall fail to examine title and notify the Seller of any such title objections and/or survey by the end of the Study Period, all such title and /or survey exceptions (other than those that are to be paid at Closing as provided above) shall be deemed Permitted Title Exceptions.

(e) If, despite Purchaser's commercially reasonable efforts to obtain and review all third party reports during the Study Period, Purchaser shall not have received a Phase I environmental report or a property conditions report with respect to the Real Property and the Utility Real Property (such Phase I environmental report and property conditions report being referred to herein collectively as the "Environmental and Engineering Reports"), then (i) the Purchaser shall have the right to extend the Study Period for ten (10) days solely in order to obtain and review whichever or both of the Environmental and Engineering Reports the Purchaser did not receive during the Study Period, (ii) the Study Period shall not be deemed extended as to any other action required to be taken during the Study Period, and (iii) the Purchaser shall be deemed to have elected to proceed to the Closing as set forth in Section 2.3(a) hereof unless either of the Environmental and Engineering Reports not received prior to the originally scheduled end of the Study Period shall disclose problems with the Property that would reasonably cause the Purchaser not to proceed to the Closing and the Purchaser shall notify the Seller thereof (which notice shall specify the applicable problem(s) and shall include a copy of the applicable report(s)) by the end of such ten (10) day period.

(f) Prior to the expiration of the Study Period, the Purchaser shall use commercially reasonable efforts to obtain consent from the Licensor to the sale of the Property and to have a final, agreed upon Property Improvement Plan for the Hotel. Additionally, the Purchaser shall use commercially reasonable efforts to obtain the consent of the Licensor for the assignment and assumption of the Franchise Agreement or the termination of the existing Franchise Agreement and the replacement thereof with a new franchise agreement to which the Purchaser is a party, and shall pay all costs and expenses associated therewith. The Seller shall assist the Purchaser in respect thereto, but shall not be responsible for any costs or expenses. If, despite the Purchaser's commercially reasonable efforts, the Purchaser is unable to obtain the consent of Licensor described in this Section 2.3(f) during the Study Period, then (i) the Purchaser shall have the right to extend the Study Period for ten (10) days solely in order to make such arrangements, (ii) the Study Period shall not be deemed extended as to any other action required to be taken during the Study Period, and (iii) the Purchaser shall be deemed to have elected to proceed to the Closing as set forth in Section 2.3(a) hereof unless the Purchaser is unable to obtain the consent by the end of such ten (10) day period. If the Purchaser is unable to make such arrangements by the end of such ten (10) day period, either party may terminate this Agreement.

(g) Prior to the expiration of the Study Period, the Purchaser and the Seller shall negotiate in good faith and use reasonable commercial efforts to (i) agree on the forms of amendments to the Holtsville Retail Ground Lease and the Holtsville Utility Ground Lease (collectively, the "Ground Lease Amendments") to address the matters set forth in the term sheet attached as Exhibit T in a manner acceptable to both Purchaser and Seller and (ii) to agree on a form of three party agreement (the "Three Party Agreement") to be entered into at Closing among the Seller, the tenant under the Holtsville Retail Ground Lease and the Utility Purchaser to address the future operation of the Sewage Facilities and the matters set forth in the term sheet attached as Exhibit U hereto in a manner acceptable to both the Purchaser and the Seller. In the event the parties have not agreed upon the forms of the Ground Lease Amendments and the Three Party Agreement by the end of the original Study Period, then the Purchaser shall have the right to extend the Study Period for one (1) business day for (i) each business day after four (4) business days after the date of this Agreement that the Seller has not delivered initial drafts of the



Ground Lease Amendments and the Three Party Agreement to Purchaser (delivery of initial drafts of the Ground Lease Amendments and the Three Party Agreement to the Purchaser's attorney by electronic mail shall constitute delivery to the Purchaser) and (ii) each business day after two (2) business days from the Seller's receipt of the Purchaser's comments to the Ground Lease Amendments or the Three Party Agreement (which comments shall be given not less than five (5) business days after the delivery of such draft documents to Purchaser and may be by electronic mail sent to Purchaser's attorney) that the Seller has not responded in writing (which response may be by electronic mail sent to the Seller's attorney) to such comments solely in order to reach agreement on the forms of the Ground Lease Amendments and the Three Party Agreement, (ii) the Study Period shall not be deemed extended as to any other action required to be taken during the Study Period, and (iii) each party shall be deemed to have elected to proceed to the Closing as set forth in Section 2.3(a) hereof unless either party shall notify the other by the end of the Study Period, as the same may have been extended pursuant to the provisions of this Section 2.3(g), that it wishes to terminate the Agreement because it has not agreed upon the forms of the Ground Lease Amendments and the Three Party Agreement.

(h) Not later than the last day of the Study Period, the Purchaser shall notify the Seller as to which of the Operative Agreements and the Utility Operative Agreements it elects not to assume at the Closing. In the event that the Purchaser shall not so notify the Seller as to any of the Operative Agreements or Utility Operative Agreements by the last day of the Study Period, the Purchaser shall be deemed to have elected to assume such agreements.

2.4 Payment of Purchase Price. The Purchaser shall pay the balance of the Purchase Price, as adjusted in the manner specified in Article 6, by confirmed wire transfer of immediately available federal funds to the account of the Title Company, to be disbursed to the Seller or other applicable parties at Closing.

### **ARTICLE 3 SELLER'S REPRESENTATIONS, WARRANTIES AND COVENANTS**

To induce the Purchaser to enter into this Agreement and to purchase the Property and to cause Utility Purchaser to purchase the Utility Property, the Seller hereby makes the following representations, warranties and covenants, upon each of which the Seller acknowledges and agrees that the Purchaser is entitled to rely and has relied. Each such representation shall be materially true and correct on the date hereof and shall be materially true and correct on the Closing Date.

3.1 Organization and Power. Each of the Hotel Seller and the Utility Seller is a limited liability company duly formed, validly existing and in good standing under the laws of its state of formation and has all requisite powers and all governmental licenses, authorizations, consents and approvals to carry on its business as now conducted and to enter into and perform its obligations hereunder and under any document or instrument required to be executed and delivered on behalf of such party hereunder.

3.2 Authorization and Execution. This Agreement has been duly authorized by all necessary action on the part of each of the Hotel Seller and the Utility Seller, has been duly executed and delivered by each of the Hotel Seller and the Utility Seller, constitutes the valid and

binding agreement of each of the Hotel Seller and the Utility Seller and is enforceable in accordance with its terms. There is no person or entity whose consent is required in connection with the Seller's performance of its obligations hereunder whose consent shall not be obtained by the Closing.

3.3 Noncontravention. Subject to any consent to the assignment of any particular Operative Agreement required by the terms thereof or by applicable laws, the execution and delivery of, and the performance by the Seller of its obligations under, this Agreement does not and will not contravene, or constitute a default under, any provision of applicable law or regulation, the Seller's Organizational Documents or (except for the mortgage currently encumbering the Real Property which will be released at Closing) any agreement, judgment, injunction, order, decree or other instrument binding upon the Seller. Except as provided in Article 19 of the Holtsville Retail Ground Lease, there are no outstanding agreements (written or oral) pursuant to which the Seller (or, to the Seller's Knowledge, any predecessor to or representative of the Seller) has agreed to sell or has granted an option or right of first refusal to purchase the Property, the Utility Property or any part thereof.

3.4 No Special Taxes. The Seller has no Knowledge of, nor has it received any written notice of, any special taxes or assessments relating to the Property or the Utility Property to be sold hereunder by the Seller or any part thereof or any planned public improvements that may result in a special tax or assessment against the Property or the Utility Property.

3.5 Compliance with Existing Laws. To the Seller's Knowledge, the Seller possesses all Authorizations and Utility Authorizations, each of which is valid and in full force and effect, and no provision, condition or limitation of any of the Authorizations or Utility Authorizations has been breached or violated. To the Seller's Knowledge, the Seller has not received written notice within the past three (3) years, of any existing or threatened violation (which violation has not been cured) of any provision of any applicable building, zoning, subdivision, environmental or other governmental ordinance, resolution, statute, rule, order or regulation, including but not limited to those of environmental agencies or insurance boards of underwriters, with respect to the ownership, operation, use, maintenance or condition of the Property or the Utility Property or any part thereof, or requiring any repairs or alterations other than those that have been made prior to the date hereof.

3.6 Operative Agreements and Utility Operative Agreements.

(1) Subject to Seller's rights to enter into or modify Operative Agreements pursuant to Section 3.6(c) below, all of the Operative Agreements in force and effect as of the date hereof are listed on Exhibit D attached hereto. A true, correct and complete copy of each of the Operative Agreements has been delivered by the Seller to the Purchaser, each of the Operative Agreements is in full force and effect and have not been modified or supplemented, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default under any Operative Agreement.

(b) Subject to Seller's rights to enter into or modify Utility Operative Agreements pursuant to Section 3.6(c) below, all of the Utility Operative Agreements in force and effect as of the date hereof are listed on Exhibit S attached hereto. A true, correct and

complete copy of each of the Utility Operative Agreements has been delivered by the Seller to the Purchaser, each of the Utility Operative Agreements is in full force and effect and have not been modified or supplemented, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default under any Utility Operative Agreement.

(c) Prior to the end of the Study Period, the Seller may enter into (i) any amendment, modification, renewal or extension of any Operative Agreement or Utility Operative Agreement (a "Contract Amendment"), or (ii) any new service or supply contract affecting any portion of the Property or the Utility Property (a "New Contract"), provided that if any such Contract Amendment or New Contract shall be binding on the Purchaser for any period of time after the Closing the Seller shall send a copy thereof to the Purchaser at least two (2) business days prior to the end of the Study Period. After the end of the Study Period, in the event that the Seller desires to enter into (i) a Contract Amendment or a New Contract, the Seller shall deliver written notice to the Purchaser requesting the Purchaser's consent to such proposed Contract Amendment, or proposed New Contract. Within five (5) business days after the Seller delivers such request to the Purchaser, the Purchaser shall deliver written notice to the Seller approving or disapproving such proposed Contract Amendment or such proposed New Contract (and if Purchaser disapproves any such Proposed Contract Amendment, such Proposed New Contract, Purchaser shall specify in such notice the reasons for such disapproval). The Purchaser shall not unreasonably withhold Purchaser's consent to any proposed Contract Amendment or proposed New Contract. In the event that the Purchaser fails to deliver notice disapproving a proposed Contract Amendment or proposed New Contract, within the five (5) business day period set forth above, the Purchaser shall be deemed to have approved such proposed Contract Amendment or proposed New Contract. If the Purchaser shall approve a proposed Contract Amendment or proposed New Contract, then the Seller shall have the right to execute such proposed Contract Amendment or proposed New Contract. If the Purchaser shall reasonably disapprove a proposed Contract Amendment or proposed New Contract, then Seller shall not enter into such proposed Contract Amendment or proposed New Contract. Notwithstanding the foregoing, the Seller shall have the right, without the necessity of obtaining the approval of the Purchaser, to execute any Contract Amendment or New Contract after the end of the Study Period (x) if and to the extent that such Contract Amendment or New Contract will not be binding upon the Purchaser after the Closing, or (y) if such Contract Amendment or New Contract is terminable by the Purchaser on not more than thirty (30) days notice without penalty (provided that the Seller shall give a copy of any Contract Amendment or New Contract described in clause (y) prior to the Closing).

3.7 Warranties and Guaranties. The Seller shall not before or after Closing, release or modify any warranties or guarantees, if any, of manufacturers, suppliers and installers covering to the Improvements, the Utility Improvements, the Personal Property and the Utility Personal Property or any part thereof, except with the prior written consent of the Purchaser. A complete list of all such warranties and guaranties in effect as of this date is attached hereto as Exhibit E.

3.8 Insurance. To the Seller's Knowledge, all of the Insurance Policies and Utility Insurance Policies are valid and in full force and effect, all premiums for such policies were paid when due and all future premiums for such policies (and any replacements thereof) shall be paid by the Seller on or before the due date therefor. The Seller shall pay all premiums on, and shall not cancel or voluntarily allow to expire, any of the Insurance Policies or Utility Insurance

Policies unless such policy is replaced, without any lapse of coverage, by another policy or policies providing coverage at least as extensive as the policy or policies being replaced.

3.9 Condemnation Proceedings; Roadways. Seller has not received any written notice of any condemnation or eminent domain proceeding pending or threatened against the Property or the Utility Property or any part thereof. The Seller has not received any written notice of any change or proposed change in the route, grade or width of, or otherwise affecting, any street or road adjacent to or serving the Real Property or the Utility Real Property.

3.10 Litigation. Seller has not received any written notice of any action, suit or proceeding pending or threatened against or affecting the Seller in any court, before any arbitrator or before or by any Governmental Body which (a) in any manner raises any question affecting the validity or enforceability of this Agreement or any other agreement or instrument to which the Seller is a party or by which it is bound and that is to be used in connection with, or is contemplated by, this Agreement, (b) could materially and adversely affect the ability of the Seller to perform its obligations hereunder or (c) could otherwise materially adversely affect the Property or the Utility Property, any part thereof or any interest therein, or the use, operating condition or occupancy thereof.

3.11 Labor Disputes and Agreements. Seller has no employees. Seller has no Knowledge of any labor disputes pending or, threatened as to the operation or maintenance of the Property or the Utility Property or any part thereof. The Seller is not a party to any union or other collective bargaining agreement with employees employed in connection with the ownership, operation or maintenance of the Property or the Utility Property. The Seller is not a party to any employment contracts or agreements, and neither the Seller nor its managing agent will, between the date hereof and the date of Closing, enter into any new employment contracts or agreements or hire any new employees except with the prior written consent of the Purchaser. The Purchaser will not be obligated to give or pay any amount to any employee of the Seller or the Seller's managing agent unless the Purchaser elects to hire that employee. The Purchaser shall not have any liability under any pension or profit sharing plan that the Seller or its managing agent may have established with respect to the Property or the Utility Property or their or its employees.

3.12 Operation of Property and Utility Property. The Seller covenants that between the date hereof and the date of Closing it will (a) operate the Property only in the usual, regular and ordinary manner consistent with the Seller's prior practice, (b) maintain its books of account and records in the usual, regular and ordinary manner, in accordance with sound accounting principles applied on a basis consistent with the basis used in keeping its books in prior years, (c) use all reasonable efforts to preserve intact its present business organization, keep available the services of its present officers, partners and employees and preserve its relationships with suppliers and others having business dealings with it, and (d) comply with and perform all of the material duties and obligations of the Seller under the Franchise Agreement. The Seller shall continue to use commercially reasonable efforts to take guest room reservations and to book functions and meetings and otherwise to promote the business of the Property in generally the same manner as the Seller did prior to the execution of this Agreement. All advance room bookings and reservations and all meetings and function bookings shall continue to be booked at rates, prices and charges heretofore customarily charged by the Seller for such purposes.

3.13 Personal Property. All of the Tangible Personal Property, Intangible Personal Property, Inventory, Utility Tangible Personal Property and Utility Intangible Personal Property being conveyed by the Seller to the Purchaser, the Purchaser's Hotel Lessee or the Utility Purchaser, as applicable, are free and clear of all liens, leases and other encumbrances and will be so on the date of Closing and the Seller has good, merchantable title thereto and the right to convey same in accordance with the terms of the Agreement.

3.14 Bankruptcy. No Act of Bankruptcy has occurred with respect to the Seller.

3.15 Sewage Facilities. The Utility Seller will continue operation of the Sewage Facilities consistent with the manner in it currently operates the Sewage Facilities through Closing.

3.16 Intentionally Deleted.

3.17 Hazardous Substances. The Seller has not received written notice from any governmental authority of the presence on the Property or the Utility Property of any Hazardous Substances (as hereinafter defined) in violation of any law. As used herein, "Hazardous Substances" shall mean any substance or material whose presence, nature, quantity or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials is either:

(1) regulated, monitored or defined as a hazardous or toxic substance or waste by any Governmental Body, or

(2) a basis for liability of the owner of the Property or the Utility Property to any Governmental Body or third party, and Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil, or any products, by-products or components thereof, and asbestos.

3.18 Intentionally Deleted.

3.19 Independent Audit. Seller shall provide access by Purchaser's representatives to all financial and other information relating to the Property which would be sufficient to enable them to prepare audited financial statements in conformity with Regulation S-X of the Securities and Exchange Commission (the "Commission") and to enable them to prepare a registration statement, report or disclosure statement for filing with the Commission. If such a filing is necessary, as determined in good faith by the Purchaser, then Seller shall cause Manager to provide to Purchaser's representatives a signed representative letter, in the form attached hereto as Exhibit M. This Section 3.19 shall survive for two (2) years after the Closing Date.

3.20 Bulk Sale Compliance. The Seller shall indemnify Purchaser against any claim, loss or liability arising under the bulk sales law in connection with the transaction contemplated herein.

3.21 Liquor License. The Seller will, at no cost to the Seller, use commercially reasonable efforts to cause Manager to cooperate with Purchaser to arrange for continued use of the existing liquor license for the Hotel (and any restaurant located therein) until such time as the

Purchaser is able to obtain a new liquor license for the Hotel (and any restaurant located therein), provided that the Seller shall have no liability in connection with the continued use of the liquor license or any action or failure to act by the holder of the existing liquor license for the Hotel from and after the date of Closing.

3.22 Holtsville Utility Ground Lease. A true, correct and complete copy of that certain Ground Lease, dated as of January 30, 2004, by and between Seller (as successor in interest to Holtsville Hotel Associates, LLC, a Delaware limited liability company), as landlord, and FB Holtsville Utility LLC, a Delaware limited liability company, as tenant (the "Holtsville Utility Ground Lease"), has been delivered by the Seller to the Purchaser, the Holtsville Utility Ground Lease is in full force and effect and has not been modified or supplemented except as contemplated in this Agreement, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default thereunder.

3.23 Holtsville Retail Ground Lease. A true, correct and complete copy of that certain Ground Lease, dated as of January 30, 2004, by and between Seller (as successor in interest to Holtsville Hotel Associates, LLC, a Delaware limited liability company), as landlord, and FB Holtsville Retail LLC, a Delaware limited liability company, as tenant (the "Holtsville Retail Ground Lease"), has been delivered by the Seller to the Purchaser, the Holtsville Retail Ground Lease is in full force and effect and has not been modified or supplemented except as contemplated by this Agreement, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default thereunder.

3.24 Reciprocal Easement Agreement. A true, correct and complete copy of that certain Reciprocal Easement Agreement, dated as of May 2, 2003, by and between Holtsville Hotel Associates, LLC, a Delaware limited liability company and FB Holtsville LLC, a Delaware limited liability company (the "REA"), has been delivered by the Seller to the Purchaser, the REA is in full force and effect and has not been modified or supplemented, and no fact or circumstance has occurred that, by itself or with the giving of notice or the passage of time or both, would constitute a default thereunder.

3.25 Money Laundering. The Seller is not acting, directly or indirectly, for or on behalf of any person, group, entity or nation named by the United States Treasury Department as a Specifically Designated National and Blocked person, or for or on behalf of any person, group, entity or nation designated in Presidential Executive Order 13224 (the "Executive Order") as a person who commits, threatens to commit, or supports terrorism; and it is not engaged in this transaction directly or indirectly on behalf of, or facilitating this transaction directly or indirectly on behalf of, any such person, group, entity or nation terrorists, terrorist organizations or narcotics traffickers, including, without limitation, those persons or entities that appear on the Annex to the Executive Order, or are included on any relevant lists maintained by the Office of Foreign Assets Control of U.S. Department of Treasury, U.S. Department of State, or other U.S. government agencies, all as may be amended from time to time. Neither Seller, nor any person controlling or controlled by Seller, is a country, territory, individual or entity named on a Government List, and the monies used in connection with this Agreement and amounts committed with respect thereto, were not and are not derived from any activities that contravene any applicable anti-money laundering or anti bribery laws and regulations (including, without limitation, funds being derived from any person, entity, country or territory on a Government

List or engaged in any unlawful activity defined under 18 USC §1956(c)(7)). For purposes of this Agreement, “Government List” means of any of (i) the two lists maintained by the United States Department of Commerce (Denied Persons and Entities), (ii) the list maintained by the United States Department of Treasury (Specially Designated Nationals and Blocked Persons) and (iii) the two lists maintained by the United States Department of State (Terrorist Organizations and Debarred Parties).

The representations and warranties in this Article 3 shall survive the Closing for a period of twelve (12) months following the Closing Date (“Survival Period”). Notwithstanding anything to the contrary contained in this Agreement, any claim that Purchaser may have during the Survival Period against Seller for any breach of the representations and warranties contained in this Article 3 will not be valid or effective, and the Seller shall have no liability with respect thereto, unless the aggregate of all valid claims exceed Fifty Thousand and No/Dollars (\$50,000.00). Seller’s liability for damages resulting from valid claims during the Survival Period shall in no event exceed two and one-half percent (2.5%) of the Purchase Price in the aggregate. Purchaser agrees that, with respect to any alleged breach of representations in this Agreement discovered after the Survival Period, the maximum liability of Seller for all such alleged breaches is limited to One Hundred and No/Dollars (\$100.00).

In the event Purchaser obtains actual knowledge on or before Closing of any material inaccuracy in any of the representations and warranties contained in this Article 3, it shall notify Seller thereof within five (5) business days of obtaining such knowledge. In the event that Seller shall (i) not provide written notice to the Purchaser within five (5) business days of receipt of such notice from the Purchaser that it will correct or resolve such inaccuracy prior to the Closing (and the Seller shall have the right to postpone the Closing for up to thirty (30) days to effectuate such correction), or (ii) if the Seller provides such notice to the Purchaser but fails to correct or resolve such inaccuracy prior to the Closing (as it may be so extended), Purchaser may, as Purchaser’s sole and exclusive remedy either: (i) terminate this Agreement, whereupon the Deposit shall be refunded to Purchaser and, solely in the event that a Seller’s representation was actually false in any material respect when made on the date hereof (as opposed to a Seller’s representation that first becomes untrue after the date hereof due to changed circumstances or matters which arise or first come to Seller’s attention after the date hereof, in which case Seller will provide written notice to Purchaser), Purchaser shall be entitled to receive reimbursement from Seller for Purchaser’s out of pocket expenses actually incurred in connection with the transaction contemplated by this Agreement, not to exceed One Hundred Thousand and No/Dollars (\$100,000.00), and neither party shall have any further rights or obligations pursuant to this Agreement, other than as set forth herein with respect to rights or obligations that survive termination; or (ii) waive any and all claims against Seller on account of such inaccuracy and close the transaction. Notwithstanding the foregoing, if any representation contained in Sections 3.4, 3.5, 3.10 or 3.17 becomes materially false between the date of this Agreement and the Closing, the Seller may elect, by providing written notice to the Purchaser within five (5) business days of receipt of the material falsehood from the Purchaser, to (x) cure the condition causing such representation to be false (including, without limitation, by posting a bond or escrowing sufficient funds to satisfy a claim), or (y) to indemnify, defend and hold the Purchaser harmless against all claims, costs and damages arising in connection with the subject matter of such representation, which indemnification shall be personally guaranteed by Jay Furman, and if the Seller elects (x) or (y), the Purchaser shall not have the right to terminate this Agreement in

connection with the inaccuracy of such representations; provided, however, that (i) if any representation contained in Section 3.10 becomes materially false between the date of this Agreement and the Closing and the amount of the claim involved is \$1,000,000 or less and the claim is fully covered by insurance reasonably acceptable to the Purchaser, the Purchaser shall not have the right to terminate this Agreement in connection with the inaccuracy of such representation, and (ii) if any representation contained in Section 3.10 becomes materially false between the date of this Agreement and the Closing and the amount of the claim involved is more than \$1,000,000, the Seller shall not have the right to prevent the Purchaser's termination of this Agreement by electing (x) or (y). The terms "material", "materially" and "in any material respect" when used in this paragraph shall mean that the subject modified by such term shall be reasonably expected to result in liabilities, damages, costs or expenses to the Purchaser in an aggregate amount of at least Fifty Thousand and No/Dollars (\$50,000.00), except that with respect to Section 3.10 such terms shall apply to a claim in the amount of more than \$100,000 brought after the date of this Agreement.

In the event the Purchaser obtains knowledge on or before five (5) business days before the expiration of the Study Period of any inaccuracy in any of the representations and warranties contained in this Article 3, and Purchaser does not terminate this Agreement on or before the expiration of the Study Period, Purchaser shall be deemed to have waived any and all claims against Seller on account of such inaccuracy (including the right to terminate this Agreement following the expiration of the Study Period). If the Purchaser obtains such knowledge less than five (5) business days before the expiration of the Study Period, then the provisions of the preceding paragraph shall apply.

In the event the Seller notifies the Purchaser that the Purchaser has a right to terminate this Agreement because of a material inaccuracy in any of the representations and warranties contained in Article 3 and that the Seller will not or can not cure such inaccuracy, the Purchaser will notify the Seller within three (3) business days of the Purchaser's receipt of such notice from the Seller whether or not the Purchaser will terminate this Agreement. If the Purchaser shall not so timely notify the Seller, then the Purchaser shall be deemed to have waived such right to terminate this Agreement.

#### **ARTICLE 4 PURCHASER'S REPRESENTATIONS, WARRANTIES AND COVENANTS**

To induce the Seller to enter into this Agreement and to sell the Property and the Utility Property, the Purchaser hereby makes the following representations, warranties and covenants, upon each of which the Purchaser acknowledges and agrees that the Seller is entitled to rely and has relied. Each such representation shall be materially true and correct on the date hereof and shall be materially true and correct on the Closing Date.

4.1 Organization and Power. The Purchaser is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all trust powers and all governmental licenses, authorizations, consents and approvals to carry on its business as now conducted and to enter into and perform its obligations under this Agreement and any document or instrument required to be executed and delivered on behalf of the Purchaser hereunder. The Purchaser is wholly owned by Chatham Lodging, L.P., a limited liability



company duly organized, validly existing and in good standing under the laws of the State of Delaware. Chatham Lodging Trust, a real estate investment trust duly organized, validly existing and in good standing under the laws of the State of Maryland is the general partner of Chatham Lodging, L.P., and holds over ninety percent (90%) of the partnership interests in Chatham Lodging, L.P.

4.2 Authorization and Execution. This Agreement has been duly authorized by all necessary action on the part of the Purchaser, has been duly executed and delivered by the Purchaser, constitutes the valid and binding agreement of the Seller and is enforceable in accordance with its terms. There is no person or entity whose consent is required in connection with the Seller's performance of its obligations hereunder whose consent shall not be obtained by the Closing.

4.3 Noncontravention. The execution and delivery of this Agreement and the performance by the Purchaser of its obligations hereunder do not and will not contravene, or constitute a default under, any provisions of applicable law or regulation, the Purchaser's declaration of trust or other trust document or any agreement, judgment, injunction, order, decree or other instrument binding upon the Purchaser.

4.4 Litigation. There is no action, suit or proceeding, pending or known by the Purchaser to be threatened against or affecting the Purchaser in any court or before any arbitrator or before any Governmental Body which (a) in any manner raises any question affecting the validity or enforceability of this Agreement or any other agreement or instrument to which the Purchaser is a party or by which it is bound and that is to be used in connection with, or is contemplated by, this Agreement, or (b) could materially and adversely affect the ability of the Purchaser to perform its obligations hereunder, or under any document to be delivered pursuant hereto.

4.5 Bankruptcy. No Act of Bankruptcy has occurred with respect to the Purchaser.

4.6 Money Laundering. The Purchaser is not acting, directly or indirectly, for or on behalf of any person, group, entity or nation named by the United States Treasury Department as a Specifically Designated National and Blocked person, or for or on behalf of any person, group, entity or nation designated in the Executive Order as a person who commits, threatens to commit, or supports terrorism; and it is not engaged in this transaction directly or indirectly on behalf of, or facilitating this transaction directly or indirectly on behalf of, any such person, group, entity or nation terrorists, terrorist organizations or narcotics traffickers, including, without limitation, those persons or entities that appear on the Annex to the Executive Order, or are included on any relevant lists maintained by the Office of Foreign Assets Control of U.S. Department of Treasury, U.S. Department of State, or other U.S. government agencies, all as may be amended from time to time. Neither Purchaser, nor any person controlling or controlled by Purchaser, is a country, territory, individual or entity named on a Government List, and the monies used in connection with this Agreement and amounts committed with respect thereto, were not and are not derived from any activities that contravene any applicable anti-money laundering or anti bribery laws and regulations (including, without limitation, funds being derived from any person, entity, country or territory on a Government List or engaged in any unlawful activity defined under 18 USC §1956(c)(7)).

The representations and warranties in this Article 4 shall survive the Closing for a period of twelve (12) months following the Closing Date.

## ARTICLE 5 CONDITIONS AND ADDITIONAL COVENANTS

5.1 Conditions to Purchaser's Obligations. The Purchaser's obligations hereunder are subject to the satisfaction of the following conditions precedent and the compliance by the Seller with the following covenants:

(a) Seller's Deliveries. The Seller shall have delivered to the Title Company or the Purchaser, as the case may be, on or before the date of Closing, all of the documents and other information required of the Seller pursuant to Section 6.2.

(b) Representations, Warranties and Covenants; Obligations of the Seller; Certificate. Subject to the provisions of Article 3, all of the Seller's representations and warranties made in this Agreement shall be materially true and correct as of the date hereof as of the date of Closing as if then made (except to the extent that any such representations and warranties shall be modified to reflect matters, if any, which arise subsequent to the date hereof, as set forth in Article 3 hereof, and the Seller shall have executed and delivered to the Purchaser at Closing a certificate to the foregoing effect; provided that a change in a Seller representation or warranty that would not give the Purchaser the right to terminate this Agreement pursuant to Article 3 hereof shall not constitute a failure of this condition to be satisfied.

(c) Intentionally Deleted.

(d) Management Agreement. The Seller shall, effective on or before the date of Closing, effect the termination of the Management Agreement and pay all costs incurred in connection therewith. The Seller shall indemnify and hold the Purchaser harmless from any claims or liability relating to the Management Agreement.

(e) Holtsville Utility Ground Lease Estoppel. The Seller shall have delivered to the Purchaser a written statement from the lessee under the Holtsville Utility Ground Lease acknowledging the commencement and termination dates of the Holtsville Utility Ground Lease, that there is no material default except as otherwise noted in such written statement, that the Holtsville Utility Ground Lease is in full force and effect except as otherwise noted in such written statement, and that the Holtsville Utility Ground Lease has not been modified (or if it has, stating such modification).

(f) Holtsville Retail Ground Lease Estoppel. The Seller shall have delivered to the Purchaser a written statement from the lessee under the Holtsville Retail Ground Lease acknowledging the commencement and termination dates of the Holtsville Retail Ground Lease, that there is no material default except as otherwise noted in such written statement, that the Holtsville Retail Ground Lease is in full force and effect except as otherwise noted in such written statement, and that the Holtsville Retail Ground Lease has not been modified except as contemplated by this Agreement (or if it has, stating such modification).

(g) REA Estoppel. The Seller shall have delivered to the Purchaser a written statement from the counterparty under the REA acknowledging the commencement and termination dates of the REA, that there is no material default except as otherwise noted in such written statement, that the REA is in full force and effect except as otherwise noted in such written statement, and that the REA has not been modified (or if it has, stating such modification).

5.2 Conditions to Seller's Obligations. The Seller's obligations hereunder are subject to the satisfaction of the following conditions precedent and the compliance by the Purchaser with the following covenants:

(a) Purchaser's Deliveries. The Purchaser shall have delivered to the Title Company or the Seller, as the case may be, on or before the date of Closing, all of the documents and other information required of the Seller pursuant to Section 6.3.

(b) Representations, Warranties and Covenants; Obligations of the Seller; Certificate. All of the Purchaser's representations and warranties made in this Agreement shall be materially true and correct as of the date hereof and as of the date of Closing as if then made, the Purchaser shall have performed all of the covenants and other obligations under this Agreement applicable to the Purchaser and the Purchaser shall have executed and delivered to the Purchaser at Closing a certificate to the foregoing effect.

## ARTICLE 6 CLOSING

6.1 Closing. The Closing shall be conducted through the Title Company or in another manner at a location that is mutually acceptable to the parties, on or before the date that is twenty (20) days following the expiration of the Study Period, as it may be extended pursuant to Sections 2.3(d), 2.3(e), and 2.3(g) and Article 3; but in no event shall Closing occur after September 1, 2010. Possession of the Property and the Utility Property shall be delivered to the Purchaser and the Utility Purchaser, respectively at the Closing, subject only to Permitted Title Exceptions and guests of the Hotel.

6.2 Seller's Deliveries. At Closing, the Seller shall deliver to Purchaser all of the following instruments (except where previously provided to Purchaser), each of which shall have been, where applicable, duly executed and, where applicable, acknowledged on behalf of the applicable Seller (except where otherwise noted) and shall be dated as of the date of Closing:

- (a) The certificate required by Section 5.1(b);
- (b) The Deed;
- (c) The Bill of Sale (Inventory);
- (d) The Bill of Sale (Personal Property);
- (e) The Assignment and Assumption Agreement (Operative Agreements);

- (f) The Assignment and Assumption Agreement (Ground Leases);
- (g) The fully executed Ground Lease Amendments;
- (h) The Three Party Agreement (signed by the lessee under the Holtsville Retail Ground Lease);
- (i) The Utility Deed;
- (j) The Utility Bill of Sale;
- (k) The Utility Assignment and Assumption Agreement (Utility Operative Agreements);
- (l) The Utility Assignment and Assumption Agreement (Utility Ground Lease);
- (m) Certificate(s)/Registration of Title for any vehicle owned by the Seller and the Utility and used in connection with the Property or the Utility Property;
- (n) Such agreements, affidavits or other documents as may be required by the Title Company to issue the Owner's Title Policy with affirmative coverage over mechanics' and materialmen's liens if any shall exist;
- (o) The FIRPTA Certificate;
- (p) The Utility FIRPTA Certificate;
- (q) True, correct and complete copies of all warranties, if any and if in the Seller's possession, of manufacturers, suppliers and installers possessed by the Seller and relating to the Improvements, the Personal Property, the Utility Improvements and the Utility Personal Property, or any part thereof;
- (r) Two New York State Real Property Transfer Tax Returns (the "TP-584's") and two New York State Equalization and Assessment Forms (the "RP-5217's");
- (s) Subject to Purchaser having made any required tax filings in compliance with applicable law, an indemnification in a form reasonably acceptable to Purchaser from Seller with respect to Seller's compliance with the bulk sales laws or similar statutes;
- (t) A written instrument executed by the Seller, conveying and transferring to the Purchaser all of the Seller's right, title and interest (to the extent assignable, and without recourse to the Seller) in any telephone numbers and facsimile numbers relating to the Property, and, if the Seller maintains a post office box, conveying to the Purchaser all of its interest in and to such post office box and the number associated therewith, so as to assure a continuity in operations and communications;

(u) All current real estate and personal property tax bills in the Seller's possession;

(v) A complete set of all guest registration cards, guest transcripts, guest histories, and all other available guest information;

(w) A complete list of all advance room reservations, functions and the like, in reasonable detail so as to enable the Purchaser to honor the Seller's commitments in that regard;

(x) A list of the Seller's outstanding accounts receivable as of 11:59 p.m. on the date prior to the Closing, specifying the name of each account and the amount due the Seller;

(y) Written notice executed by the Seller notifying the tenant under the Holtsville Retail Ground Lease and the tenant under the Holtsville Utility Ground Lease that the Property has been conveyed to the Purchaser and directing that all payments, inquiries and the like be forwarded to the Purchaser at the address to be provided by the Purchaser;

(z) All keys for the Property, to the extent in Seller's possession and control;

(aa) An assignment, without recourse, of all warranties and guarantees from all contractors and subcontractors, manufacturers, and suppliers in effect with respect to the Improvements; and

(bb) Complete set of "as-built" drawings for the Improvements, if any in Seller's possession.

Notwithstanding anything to the contrary contained herein, (i) the items described in (u)-(w) and (z) may be delivered to the Purchaser at the Property, and (ii) copies of books, records, operating reports, appraisal reports, files and other materials in the Seller's possession or control which are necessary in the Purchaser's discretion to maintain continuity of operation of the Property and which are specified in a notice from the Purchaser to the Seller shall be delivered to the Purchaser promptly after the Closing.

6.3 Purchaser's Deliveries. At Closing, the Purchaser shall pay or deliver to the Seller the following, each of which shall have been, where applicable, duly executed and, where applicable, acknowledged on behalf of the Purchaser (except where otherwise noted) and shall be dated as of the date of Closing:

(a) The certificate required by Section 5.2(b);

(b) The portion of the Purchase Price described in Section 2.4(b);

(c) The Assignment and Assumption Agreement (Operative Agreements) (executed by the Purchaser's Hotel Lessee);

(d) The Assignment and Assumption (Ground Leases);

- (e) The Three Party Agreement (executed by the Purchaser and the Utility Purchaser);
  - (f) The Utility Assignment and Assumption Agreement (Utility Operative Agreements) (executed by the Utility Purchaser);
  - (g) The Utility Assignment and Assumption Agreement (Utility Ground Lease) (executed by the Utility Purchaser);
  - (h) A guaranty of the Utility Purchaser's obligations under the Three Party Agreement from Purchaser, in a form reasonable acceptable to the Seller;
- and
- (i) The TP-584's and the RP-5217's (executed by the Purchaser and the Utility Purchaser, as applicable).

6.4 Closing Costs. All closing costs and expenses will be allocated between the Purchaser and the Seller in accordance with the customary practice in the county in which the Property is located, except as allocated specifically between the Purchaser and the Seller below. The Seller and the Purchaser shall each be responsible for the payment of its own attorney's fees incurred in connection with transaction which is the subject of this Agreement.

(a) Purchaser Costs. The Purchaser shall pay for: (i) all costs and expenses associated with the inspection and due diligence of the Property and the Utility Property (including, but not limited to, any new or updated surveys), (ii) all costs associated with the assignment of the Franchise Agreement or the termination of the Franchise Agreement and issuance of a new franchise agreement to which the Purchaser is a party (including, if Closing occurs, all costs associated with the PIP, including all costs incurred by the Seller associated with the PIP), (iii) the Purchaser's title insurance policy, (iv) all state and other recordation taxes, and (v) one-half of the fee charged by the Title Company to serve as escrow agent hereunder. If the Closing occurs, all costs incurred by the Seller associated with the PIP shall be paid by Purchaser to the Seller at the Closing.

(b) Seller Costs. The Seller shall pay for: (i) the releases of any mortgages and other financing encumbering the Property or the Utility Property and for any costs associated with any corrective instruments, (ii) the New York State Transfer Tax due in connection with the conveyance of the Property, (iii) one-half (.5) of the fee charged by the Title Company to serve as escrow agent hereunder.

#### 6.5 Income and Expense Allocations.

(a) All income, except any Intangible Personal Property, and expenses with respect to the Property or the Utility Property, and applicable to the period of time before and after Closing, determined in accordance with sound accounting principles consistently applied, shall be allocated between the Seller and the Purchaser. The Seller shall be entitled to all income and responsible for all expenses for the period of time up to but not including the Closing Date, and the Purchaser shall be entitled to all income and responsible for all expenses for the period of time from, after and including the Closing Date. Without limiting the generality of the foregoing, the following items of income and expense shall be allocated at Closing:

(i) Current and prepaid rents, including, without limitation, prepaid room receipts, function receipts and other reservation receipts (the obligations with respect to which the Purchaser hereby assumes);

(ii) Real estate and personal property taxes;

(iii) Amounts under Operative Agreements or Utility Operative Agreements to be assigned to and assumed by the Purchaser or its lessee;

(iv) License and permit fees, where transferable;

(v) Value of fuel stored on the Property or the Utility Property at the price paid for such fuel by the Seller, including any taxes;

(vi) All prepaid reservations and contracts for rooms confirmed by the Seller prior to the Closing Date for dates after the Closing Date, all of which Purchaser shall honor; and

(vii) The Tray Ledger.

(b) Prior to the Closing, the Purchaser and the Seller shall cooperate to arrange for utility services to the Property to be discontinued in the Seller's name, as of the day immediately prior to the Closing Date, and to be reinstated in the Purchaser's name, as of the Closing Date. In the event that the foregoing cannot be effectuated, then the Seller shall furnish readings of the applicable utility meters to a date not more than thirty (30) days prior to the Closing Date, and the unfixed charges, if any, based thereon for the intervening time, shall be apportioned on the basis of such last readings. The Seller shall receive a credit for the amounts of any deposits on account with utility companies servicing the Property or the Utility Property (and the Seller and the Purchaser each agrees to cooperate to effectuate the transfer of any such deposits), provided that, at the Seller's option, the Seller will obtain a refund of any such utility deposits in effect and Purchaser shall provide Purchaser's own utility deposits directly to the applicable utility companies, in which event the Seller shall not receive a credit for the amount of any such deposits. In addition, at the Closing the Seller shall transfer to the Purchaser any required escrow or reserve accounts maintained by the Seller in connection with the Sewage Facilities, and the Seller shall receive a credit for the aggregate amount of such escrow or reserve accounts.

(c) The Seller shall receive a credit for any prepaid expenses accruing to periods on or after the Closing Date. At Closing, the Seller shall sell to Purchaser, and Purchaser shall purchase from the Seller, all petty cash funds located at the Property or the Utility Property.

(d) The Seller shall be required to pay all sales taxes and similar impositions in respect of the Property and the Utility Property applicable to the period prior to the Closing Date, and the Purchaser shall be required to pay all sales taxes and similar impositions applicable to the period from and after the Closing Date.

(e) The Purchaser shall not be obligated to collect any accounts receivable or revenues accrued prior to the Closing Date on behalf of the Seller, but shall cooperate, at the

Seller's cost, in connection with any collection efforts. If the Purchaser collects same, the Purchaser will remit to the Seller such amounts in the form received within ten (10) days of such collection.

(f) If accurate allocations of any item cannot be made at Closing because current bills are not obtainable, the parties shall allocate such income or expenses at Closing on the best available information, subject to adjustment upon receipt of the final bill or other evidence of the applicable income or expense. Any income received or expense incurred by the Seller or the Purchaser with respect to the Property or the Utility Property after the date of Closing shall be promptly allocated in the manner described herein and the parties shall promptly pay or reimburse any amount due.

(g) The provisions of this Section 6.5 shall survive the Closing for one (1) year.

#### 6.6 Guest Property.

(a) On the Closing Date, safe deposit boxes in the Hotel shall be opened in the presence of representatives of the Seller and the Purchaser and the contents thereof shall be recorded. Any property contained in the safe deposit boxes and so recorded shall be the responsibility of the Purchaser and the Purchaser hereby agrees to indemnify and hold harmless the Seller and each of the Seller Affiliates from and against any claim, loss, damage or liability (including reasonable attorneys' fees and costs of enforcement of the foregoing indemnification obligation) arising out of such property.

(b) All guest baggage or other guest property checked and left in the possession, care and control of the Seller shall be listed in an inventory to be prepared in duplicate and signed by representatives of the Seller and the Purchaser on the Closing Date. The Purchaser shall be responsible for all baggage listed in the inventory and the Purchaser hereby agrees to indemnify and hold harmless Seller and each of the Seller Affiliates from and against any claim, loss, damage or liability (including reasonable attorneys' fees and costs of enforcement of the foregoing indemnification obligation) arising out of such baggage listed in the inventory.

### **ARTICLE 7 CONDEMNATION; RISK OF LOSS**

7.1 Condemnation. In the event of any actual or threatened taking, pursuant to the power of eminent domain, of all or any portion of the Real Property or the Utility Real Property, or any proposed sale in lieu thereof, the Seller shall give written notice thereof to the Purchaser (the "Condemnation Notice") promptly after the Seller learns or receives notice thereof. If all or any part of the Real Property or the Utility Real Property which would materially interfere with the operation or use of the Hotel or the Sewage Facilities is, or is to be, so condemned or sold, the Purchaser shall have the right to terminate this Agreement by giving notice thereof to the Seller not later than ten (10) days after the Purchaser shall have received the Condemnation Notice, in which event the Deposit shall be returned to the Purchaser and all rights and obligations of the Seller and the Purchaser hereunder shall



terminate, except those that specifically survive termination of this Agreement. If the Purchaser elects not to terminate this Agreement, then there shall be no abatement of the Purchase price and all proceeds, awards and other payments arising out of such condemnation or sale (actual or threatened) shall be paid or assigned, as applicable, to the Purchaser at Closing.

7.2 Risk of Loss. In the event of any fire or other casualty affecting the Property or the Utility Property, the Seller shall give written notice thereof to the Purchaser promptly after the Seller learns or receives notice thereof (the "Casualty Notice"). If the fire or other casualty causes damage to the Property (excluding any improvements on the portion of the Land leased under the Holtsville Retail Ground Lease) which would cost in excess of One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00) or would require more than one hundred eighty (180) days to repair (as reasonably determined by the Seller and the Purchaser), the Purchaser and the Seller shall each have the right to terminate this Agreement by giving notice thereof to the other not later than ten (10) days after the Purchaser shall have received the Casualty Notice, in which event the Deposit shall be returned to the Purchaser and all rights and obligations of the Seller and the Purchaser hereunder shall terminate, except those that specifically survive termination of this Agreement. If the neither the Purchaser nor the Seller elects to terminate this Agreement, all insurance proceeds and rights to proceeds arising out of such loss or damage shall be paid or assigned, as applicable, to the Purchaser at Closing (less any expenses incurred by the Seller in connection with any adjustment of the proceeds), and Seller shall pay to Purchaser the amount of any deductible, under applicable insurance policies.

## **ARTICLE 8 LIABILITY OF PURCHASER; LIABILITY OF SELLER; TERMINATION RIGHTS**

8.1 Liability of Purchaser and Seller. Except for any obligation expressly assumed or agreed to be assumed by the Purchaser hereunder, the Purchaser does not assume any obligation of the Seller or any liability for claims arising out of any occurrence prior to Closing. The Seller shall not be responsible for any obligation of the Purchaser or any liability for claims arising out of any occurrence on or after Closing.

8.2 Intentionally Deleted.

8.3 Indemnification by Purchaser. The Purchaser hereby indemnifies and holds the Seller harmless from and against any and all claims, costs, penalties, damages, losses, liabilities and expenses (including reasonable attorneys' fees), that may at any time be incurred by the Seller after Closing as a result of Purchaser's failure to honor advance bookings made by the Seller prior to the Closing.

8.4 Termination by Purchaser. If the Seller defaults in performing any of its obligations under this Agreement (including its obligation to sell the Property), and the Seller fails to cure any such matter within ten (10) business days after notice thereof from the Purchaser, the Purchaser, at its option, may elect either (a) to terminate this Agreement, in which event the Deposit shall be forthwith returned to the Purchaser and all other rights and

obligations of the Seller and the Purchaser hereunder shall terminate immediately (except those which expressly survive the termination of this Agreement), (b) to waive its right to terminate and, instead, to proceed to Closing, or (c) seek specific performance of this Agreement.

8.5 Termination by Seller. If the Purchaser defaults in performing any of its obligations under this Agreement (including its obligation to purchase the Property), and the Purchaser fails to cure any such default within ten (10) business days after notice thereof from the Seller (except that there shall be no cure period with respect to the Purchaser's obligation to close hereunder on the Closing Date), then the Seller's sole remedy for such default shall be to terminate this Agreement, in which event the Deposit shall be forthwith paid to the Seller and all other rights and obligations of the Seller and the Purchaser hereunder shall terminate immediately (except those which expressly survive the termination of this Agreement). The Seller and the Purchaser agree that, in the event of such a default, the damages that the Seller would sustain as a result thereof would be difficult if not impossible to ascertain. Therefore, the Seller and the Purchaser agree that the Seller shall retain the Deposit as full and complete liquidated damages and as the Seller's sole remedy.

## **ARTICLE 9 "AS-IS" SALE**

AS IS, WHERE IS. PURCHASER EXPRESSLY ACKNOWLEDGES AND AGREES THAT, AS A MATERIAL PART OF THE CONSIDERATION FOR THIS AGREEMENT, THE PROPERTY AND THE UTILITY PROPERTY IS BEING SOLD TO PURCHASER, THE PURCHASER'S HOTEL LESSEE, AND THE UTILITY PURCHASER, AS APPLICABLE, AND PURCHASER AGREES TO AND TO CAUSE THE UTILITY PURCHASER AND THE PURCHASER'S HOTEL LESSEE TO PURCHASE AND ACCEPT THE PROPERTY AND THE UTILITY PROPERTY, AND EACH AND EVERY PART AND COMPONENT THEREOF, IN AN "AS IS, WHERE IS" CONDITION AS OF THE CLOSING WITH NO REPRESENTATIONS OR WARRANTIES FROM SELLER, EITHER EXPRESS OR IMPLIED EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT. PURCHASER AGREES THAT PURCHASER IS NOT RELYING UPON, AND HAS NOT RECEIVED OR BEEN GIVEN, ANY REPRESENTATIONS (EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT), STATEMENTS OR WARRANTIES (ORAL OR WRITTEN, IMPLIED OR EXPRESS) OF OR BY ANY OFFICER, EMPLOYEE, AGENT OR REPRESENTATIVE OF SELLER, OR ANY SALESPERSON OR BROKER (IF ANY) INVOLVED IN THIS TRANSACTION, AS TO THE PROPERTY OR THE UTILITY PROPERTY OR ANY PART OR COMPONENT THEREOF IN ANY RESPECT.

## **ARTICLE 10 MISCELLANEOUS PROVISIONS**

10.1 Completeness; Modification. This agreement constitutes the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes all prior discussions, understandings, agreements and negotiations between the parties hereto. This Agreement may be modified only by a written instrument duly executed by the parties hereto.

10.2 Assignments. The Purchaser shall neither assign its rights nor delegate its obligations hereunder without obtaining the Seller's prior written consent, which consent may be granted or withheld in the Seller's sole discretion. For purposes of further clarification, a sale, conveyance, assignment or other transfer of any direct or indirect interest in the Purchaser or any of its members or beneficial owners, regardless of the amount or type of interest so transferred, shall not be permitted hereunder; provided, however, that the transfer of the outstanding capital stock of Purchaser by persons or parties through the "over-the-counter" market or any recognized national securities exchange shall not be prohibited. Any purported or attempted assignment or delegation without obtaining the Seller's prior written consent shall be void and of no effect and shall constitute a default hereunder. Notwithstanding the foregoing, the Purchaser may assign its rights hereunder to an entity under common control with the Purchaser (a "Permitted Assignee"), provided that (i) the Purchaser shall provide the Seller with the name of and other information pertaining to the proposed Permitted Assignee requested by Seller (including, without limitation, evidence that the Permitted Assignee is in fact a Permitted Assignee as defined above prior to the Closing Date, (ii) such Permitted Assignee assumes all of the obligations of the Purchaser under this Agreement pursuant to an assignment and assumption agreement in form reasonably acceptable to the Seller, (iii) no assignment of this Agreement to a Permitted Assignee shall relieve the Purchaser from any of the Purchaser's obligations hereunder, and (iv) no such assignment shall have the effect of delaying the Closing in any respect.

10.3 Successors and Assigns. This Agreement shall inure to the benefit of and bind the Purchaser and the Seller and their respective successors and permitted assigns.

10.4 Days. If any action is required to be performed, or if any notice, consent or other communication is given, on a day that is a Saturday or Sunday or a legal holiday in the State of New York, such performance shall be deemed to be required, and such notice, consent or other communication shall be deemed to be given, on the first (1<sup>st</sup>) business day following such Saturday, Sunday or legal holiday. Unless otherwise specified herein, all references herein to a "day" or "days" shall refer to calendar days and not business days.

10.5 Governing Law. This Agreement and all documents referred to herein shall be governed by and construed and interpreted in accordance with the laws of the State of New York without regard to the rules regarding conflicts of laws in such State.

10.6 Counterparts. To facilitate execution, this Agreement may be executed in as many counterparts as may be required. It shall not be necessary that the signature on behalf of both parties hereto appear on each counterpart hereof. All counterparts hereof shall collectively constitute a single agreement. Furthermore, pdf or facsimile transmissions of signed copies of this Agreement shall be deemed originals.

10.7 Severability. If any term, covenant or condition of this Agreement, or the application thereof to any person or circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such term, covenant or condition to other persons or circumstances, shall not be affected thereby, and each term, covenant or condition of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

10.8 Costs. Regardless of whether Closing occurs hereunder, and except as otherwise expressly provided herein, each party hereto shall be responsible for its own costs in connection with this Agreement and the transactions contemplated hereby, including without limitation fees of attorneys, engineers and accountants.

10.9 Notices. All notices, requests, demands and other communications hereunder (each, a “Notice”) shall be in writing and shall be to have been given (i) when delivered by hand with signed receipt obtained, (ii) upon receipt when sent prepaid by Federal Express (or a comparable overnight delivery service), (iii) three (3) days after the date mailed, when sent by the United States mail, certified, postage prepaid, return receipt requested, or (iv) when transmitted by facsimile machine during business hours on a business day (otherwise the next business day), in each case at or to the addresses or facsimile numbers, as applicable, and with such copies as designated below. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given as herein required shall be deemed to be receipt of the Notice sent.

If to the Seller: Holtsville Hotel Group LLC  
Holtsville Utility LLC  
c/o RD Management LLC  
810 Seventh Avenue  
New York, New York 10019  
Attn: Steven Nachman, Esq.  
Fax: (212) 492-8469

with a copy to: Wachtel & Masyr, LLP  
One Dag Hammarskjold Plaza  
885 Second Avenue  
New York, New York 10017  
Attn: Avram Posner, Esq.  
Fax: (212) 909-9464

and a copy to: Susan Griffin  
Hospitality Investments LLC  
123 Tunxis Village  
Farmington, CT 06032  
Fax:860-676-0106

If to the Purchaser: Chatham Lodging Trust  
50 Cocoanut Row  
Suite 200  
Palm Beach, Florida 33480  
Attn: Jeffrey H. Fisher  
Fax: (561) 650-0571

with a copy to: Hunton & Williams  
1900 K Street, N.W.  
Washington, D.C. 20006  
Attn: John M. Ratino, Esq.  
Fax: (202) 778-2201

Or to such other address as the intended recipient may have specified in a notice to the other party. Any party hereto may change its address or fax number or designate different or other persons or entities to receive copies by notifying the other party in the manner described in this Section 10.9, and such change of address or fax number or designation shall be effective ten (10) days after Notice thereof shall be given to the notified party. Notices may be given by a party's attorney.

10.10 Incorporation by Reference. All of the exhibits attached hereto are by this reference incorporated herein and made a part hereof.

10.11 Further Assurances. The Seller and the Purchaser each covenant and agree to sign, execute and deliver, or cause to be signed, executed and delivered, and to do or make, or cause to be done or made, upon the written request of the other party, any and all agreements, instruments, papers, deeds, acts or things, supplemental, confirmatory or otherwise, as may be reasonably required by either party hereto for the purpose of or in connection with consummating the transactions described herein. The provisions of this Section 10.11 shall survive the Closing.

10.12 No Partnership. This Agreement does not and shall not be construed to create a partnership, joint venture or any other relationship between the parties hereto except the relationship of seller and purchaser specifically established hereby.

10.13 Time of Essence. Time is of the essence with respect to every provision hereof. Notwithstanding this Section 10.13, no provision of this Agreement shall prevent either the Seller or the Purchaser from extending any deadline, cure period or other timeframe for performance hereunder in accordance with the terms set forth herein.

10.14 Confidentiality. The existence of this Agreement and the terms and provisions of this Agreement shall remain confidential and shall not be disclosed, by either the Purchaser or any affiliate thereof or the Seller, to any third (3<sup>rd</sup>) party other than: (a) as may be required by law or regulation or to comply with the filing requirements of any applicable legislation or rule; or (b) any counsel, consultant, or agent assisting the Seller with the sale of the Property and any counsel, consultant, or agent assisting the Purchaser with the purchase of the Property, provided that any such counsel, consultant or agent shall have been advised that the terms and provisions of this Agreement are to remain confidential and not to be disclosed to any other party; or (c) by Purchaser in any necessary (as determined by the Purchaser in good faith) filing with the U.S. Securities and Exchange Commission; or (d) by the Purchaser in a limited press release that discloses only the Purchase Price, that the Hotel is an upper, upscale extended stay hotel, and that the Hotel is located in the State of New York; or (e) by the Borrower after the Closing. If the Purchaser does not proceed with the purchase of the Property, the Purchaser shall return to the Seller all materials and information furnished to it by the Seller or the Seller's agents in connection with the Purchaser's review of the Property. The provisions of this Section 10.14 shall survive any termination of this Agreement, provided that the Purchaser may issue a limited press release describing the termination of this Agreement and identifying only those items

described in clause (d) above in connection with any termination of this Agreement, but shall not include in any such press release the reason(s) for the termination of this Agreement.

10.15 No Third-Party Beneficiary. The provisions of this Agreement and of the documents to be executed and delivered at Closing are and will be for the benefit of the Seller and the Purchaser only and are not for the benefit of any third (3<sup>rd</sup>) party, and accordingly, no third (3<sup>rd</sup>) party shall have the right to enforce the provisions of this Agreement or of the documents to be executed and delivered at Closing.

10.16 Waiver of Jury Trial. The Seller and the Purchaser each hereby waive any right to jury trial in connection with the enforcement by the Purchaser, or the Seller, of any of their respective rights and remedies hereunder.

10.17 Exculpation. The Purchaser agrees, and agrees on behalf of Purchaser's Hotel Lessee and the Utility Purchaser (the Purchaser, the Purchaser's Hotel Lessee and the Utility Purchaser being collectively referred to herein as the "Purchaser Parties"), that the Purchaser Parties do not have and will not have any claims or causes of action against any disclosed or undisclosed officer, director, employee, agent, trustee, shareholder, partner, member, manager, principal, parent, subsidiary or other affiliate of the Seller, or any officer, director, employee, agent, trustee, shareholder, manager, member, partner or principal of any such parent, subsidiary or other affiliate (collectively, "Seller's Affiliates"), arising out of or in connection with this Agreement or the transactions contemplated hereby. The Purchaser Parties agree to look solely to the Seller and its assets for the satisfaction of any liability or obligation arising under this Agreement or the transactions contemplated hereby, or for the performance of any of the covenants, warranties or other agreements contained herein, and further agrees not to sue or otherwise seek to enforce any personal obligation against any of Seller's Affiliates with respect to any matters arising out of or in connection with this Agreement or the transactions contemplated hereby. Without limiting the generality of the foregoing provisions of this Section 10.17, the Purchaser Parties hereby unconditionally and irrevocably waive any and all claims and causes of action of any nature whatsoever it may now or hereafter have against Seller's Affiliates, and hereby unconditionally and irrevocably release and discharge Seller's Affiliates from any and all liability whatsoever which may now or hereafter accrue in favor of the Purchaser Parties against Seller's Affiliates, in connection with or arising out of this Agreement or the transactions contemplated hereby. If any action is brought by any of the Purchaser Parties against Seller's Affiliates, relating to or arising out of this Agreement, the transaction or subject matter described herein or the enforcement hereof, Seller's Affiliates shall be entitled to recover from the Purchaser attorneys' fees, costs and expenses incurred in connection with the defense of such action and the Purchaser Parties shall jointly and severally indemnify, and hold harmless Seller's Affiliates from and against any and all losses, expenses, damages, and liability resulting from any claim or action brought against Seller's Affiliates in violation of this Section 10.17. The provisions of this Section 10.17 shall survive the Closing or the termination of this Agreement.

10.18 Title Company. The Title Company, in its capacity as escrow agent hereunder, agrees to hold the Deposit in accordance with the terms hereof and to comply with additional written instructions from the parties, to the extent that such instructions are not in conflict.

(a) If the Closing occurs, then at Closing, the Deposit shall be released to Seller and shall be credited against the Purchase Price.

(b) In all other cases, any and all payments made by the Title Company from the Deposit shall be made in accordance with this Section 10.18(c). If either the Purchaser or the Seller delivers written notice to the Title Company requesting release of the Deposit (a “Disbursement Notice”), the Title Company shall deliver a copy of such Disbursement Notice to the party who did not deliver the Disbursement Notice. Unless within five (5) business days after delivery of such Disbursement Notice by the Title Company, the Title Company receives from such party a notice objecting to the release of the Deposit from escrow (an “Objection Notice”), the Title Company shall disburse the Deposit as set forth in the Disbursement Notice. If an Objection Notice is delivered within such five (5) Business-Day period, the Title Company shall continue to hold the Earnest Money until otherwise directed by either (i) joint written instructions from the Purchaser and the Seller, or (ii) a firm and final court order binding on the Title Company which has not been stayed, vacated or appealed before disbursement of the Deposit; provided, however, that notwithstanding the foregoing, the Title Company shall have the right in the event of such a dispute to deposit the Deposit with any federal or state court then having jurisdiction over an interpleader action with respect to the Deposit. The Title Company shall give written notice of any such deposit to the Purchaser and the Seller. Upon such deposit or other disbursement in accordance with the provisions of this Section 10.18(c), the Title Company shall be relieved and discharged of all further obligations with respect to the amounts so deposited or disbursed and all further obligations and liability to the parties hereto with respect to its obligations under this Agreement.

(c) Acceptance by the Title Company of its duties under this Agreement is subject to the following terms and conditions:

(i) The duties and obligations of the Title Company shall be determined solely by the provisions of this Agreement and any written instruction from the parties consistent with this Agreement that are not in conflict, and the Title Company shall not be liable except for the performance of such duties and obligations as are specifically set out in this Agreement or such instructions;

(ii) The Seller and the Purchaser will jointly and severally reimburse and indemnify the Title Company for, and hold it harmless against any loss, liability or expense, including but not limited to reasonable attorneys’ fees, incurred without bad faith, negligence or willful misconduct on the part of the Title Company, arising out of or in connection with any dispute or conflicting claim by the Seller or the Purchaser under this Agreement, as well as the costs and expense of defending against any claim or liability arising out of or relating to this Agreement except where such claim or liability arises from the bad faith, negligence or willful misconduct on the part of the Title Company; as between the Seller (on the one hand) and the Purchaser (on the other hand) their obligations under this subsection 10.18(d)(ii) shall be shared equally;

(iii) The Title Company shall be fully protected in acting on and relying upon any written notice, instruction, direction or other document which the Title

Company in good faith believes to be genuine and to have been signed or presented by the proper party or parties;

(iv) The Title Company may seek the advice of legal counsel in the event of any dispute or question as to the construction of any of the provisions of this Agreement or its duties hereunder, and it shall incur no liability and shall be fully protected in respect of any action taken or suffered by it in good faith in accordance with the opinion of such counsel;

(v) The Title Company may resign and be discharged from its duties hereunder at any time by giving written notice of such resignation to each of the Purchaser and the Seller specifying a date, not less than thirty (30) days after the date of such notice, when such resignation will take effect. Upon the date hereof of such resignation, the Title Company shall deliver the funds held in escrow to such person or persons as the Purchaser and the Seller shall in writing jointly direct, and upon such delivery the Title Company shall be relieved of all duties and liabilities thereafter accruing under this Agreement. The Purchaser and the Seller shall have the right at any time upon joint action to substitute a new Title Company by giving notice thereof to the Title Company then acting;

(vi) Nothing contained in this Agreement shall in any way affect the right of the Title Company to have at any time a judicial settlement of its accounts as Title Company under this Agreement;

(vii) All disbursements by Title Company shall be made by bank wire transfer of immediately available federal funds to the account or accounts of the receiving party or its designee(s), as such party may direct.

10.19 **Prevailing Party.** If either party institutes a legal action against the other arising out of this Agreement or any default hereunder, the party who does not substantially prevail such action will reimburse the other party for the reasonable expenses of prosecuting or defending such action, including without limitation attorneys' fees and disbursements and court costs. The obligations under this Section 10.19 shall survive the termination of this Agreement.

10.20 [Intentionally Deleted]

10.21 **Brokerage.** The Purchaser and the Seller each represent and warrant to the other that it has not dealt with any broker, consultant, finder or like agent who might be entitled to a commission or compensation on account of introducing the parties hereto, the negotiation or execution of this Agreement or the closing of the transactions contemplated hereby other than Felix Cacciato of Hotel Equity Advisors (the "Broker"). The Purchaser shall pay the One Hundred Fifty Thousand and No/100 Dollars (\$150,000.00) commission due the Broker pursuant to a separate agreement with the Broker. Each party agrees to indemnify, defend and hold harmless the other party, its successors, assigns and agents, from and against the payment of any commission, compensation, loss, damages, costs, and expenses (including without limitation reasonable attorneys' fees and costs) incurred in connection with, or arising out of, claims for any broker's, agent's or finder's fees of any person claiming by or through such party other than



Broker. The obligations of the Seller and the Purchaser under this Section 10.21 shall survive the Closing or the termination of this Agreement.

10.22 Exchange Provisions. Either party shall be permitted to transfer the Property (or interests in the Property) as part of a tax-free like-kind exchange (the “Exchange”) under Section 1031 of the Internal Revenue Code (the “Code”). Accordingly, each party shall cooperate with each other in structuring the transfer of the Property (or interests in the Property)) as a tax-free like-kind exchange (forward and reverse type exchanges included); the Purchaser’s or the Seller’s cooperation shall include, but not be limited to, permitting the assignment by of rights under this Agreement to a qualified intermediary (as defined in Treasury Regulation Section 1.1031 (k)-1(g)(4)(iii)), and/or entering into an agreement with a qualified intermediary for the acquisition of the Property (or interests in the Property). Notwithstanding the foregoing, the party entering into the Exchange shall fully reimburse, indemnify, defend and hold harmless the other party for all costs and expenses it incurs in connection with the Exchange, and nothing in this Section 10.22 shall permit either party to extend the Closing Date, require either party to take title to any other property, or to incur any additional expenses or liability. The provisions of this Section 10.22 shall survive Closing.

10.23 No Recording. The parties hereto agree that neither this Agreement nor any memorandum or notice hereof shall be recorded, and the Purchaser agrees not to file any lis pendens or other instrument against the Property or the Utility Property in connection herewith. In furtherance of the foregoing, the Purchaser (i) acknowledges that the filing of a lis pendens or other evidence of the Purchaser’s rights or the existence of this Agreement against the Property or the Utility Property, could cause significant monetary and other damages to Seller, and (ii) hereby indemnifies the Seller and the Seller Affiliates from and against any and all liabilities, damages, losses, costs or expenses (including, without limitation, reasonable attorneys’ fees and costs incurred in the enforcement of the foregoing indemnification obligation) arising out of the breach by the Purchaser of any of the Purchaser’s obligations under this Section 10.23, and (iii) agrees that a breach of this provision by Purchaser shall immediately entitle Seller to terminate this Agreement and keep the Deposit as liquidated damages. The filing of this Agreement with any court in connection with any litigation hereunder shall not be deemed a breach of this Section 10.23. The provisions of this Section 10.23 shall survive the termination of this Agreement.

10.24 No Continued Marketing of the Hotel for Sale. The Seller shall not solicit, negotiate, execute or otherwise pursue offers for the purchase and sale of the Property or the Utility Property with any party, other than the Purchaser, during the term of this Agreement.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the Seller and the Purchaser have caused this Agreement to be executed in their names by their respective duly-authorized representatives.

**SELLER:**

HOLTSVILLE HOTEL GROUP LLC,

By: /s/ Jay Furman  
Jay Furman,  
President

FB HOLTSVILLE UTILITY LLC,

By: FBB Partners,  
its sole member

By: MFB Realty LLC,  
Managing General Partner

By: /s/ Jay Furman  
Jay Furman, Manager

**PURCHASER:**

CHATHAM HOLTSVILLE RI LLC,

By: /s/ Peter M. Willis  
Peter M. Willis  
Executive Vice President

As to Section 10.17 only:

CHATHAM HOLTSVILLE RI LEASECO LLC

By: \_\_\_\_\_  
Name:  
Party

CHATHAM HOLTSVILLE RI UTILITY LLC

By: \_\_\_\_\_  
Name:  
Title:

Chatham Lodging Trust hereby guaranties to the Seller all of the obligations of the Purchaser that survive the termination of this Agreement.

CHATHAM LODGING TRUST

By: /s/ Peter M. Willis  
Peter M. Willis  
Executive Vice President

Title Company executes this Agreement below solely for the purpose of acknowledging that it agrees to be bound by the provisions of this Agreement relating to Title Company and the holding and disbursement of the Deposit.

CHICAGO TITLE INSURANCE COMPANY

By: \_\_\_\_\_  
Name:  
Title:

[PURCHASE AND SALE AGREEMENT SIGNATURE PAGE]

**Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jeffrey H. Fisher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Chatham Lodging Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of trustees (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**CHATHAM LODGING TRUST**

/s/ JEFFREY H. FISHER

**Jeffrey H. Fisher**

Chairman, President and Chief Executive Officer

Dated: August 13, 2010

**Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Julio E. Morales, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Chatham Lodging Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of trustees (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2010

**CHATHAM LODGING TRUST**

/s/ JULIO E. MORALES

**Julio E. Morales**

Executive Vice President and Chief Financial Officer

**Certification Pursuant To  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Chatham Lodging Trust (the "Company") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey H. Fisher, Chairman, President and Chief Executive Officer of the Company and I, Julio E. Morales, Executive Vice President and Chief Financial Officer of the Company, certify, to our knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**CHATHAM LODGING TRUST**

Dated: August 13, 2010

/s/ JEFFREY H. FISHER

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**Jeffrey H. Fisher**  
Chairman, President and Chief Executive Officer

/s/ JULIO E. MORALES

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**Julio E. Morales**  
Executive Vice President and Chief Financial Officer