



The RMR Group Inc.
2019 Annual Report

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2019

or

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

Commission file number 001-37616

THE RMR GROUP INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State of Organization)

47-4122583

(IRS Employer Identification No.)

Two Newton Place, 255 Washington Street, Suite 300, Newton, MA 02458-1634

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code **617-796-8230**

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

Title Of Each Class	Trading Symbol	Name Of Each Exchange On Which Registered
Class A common stock, \$0.001 par value per share	RMR	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided in Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting shares of Class A common stock, \$0.001 par value, of the registrant held by non-affiliates was approximately \$436.3 million based on the \$60.98 closing price per common share on The Nasdaq Stock Market LLC, on March 31, 2019. For purposes of this calculation, an aggregate of 8,074,248 common shares of Class A common Stock, held directly by, or by affiliates of, the directors and executive officers of the registrant have been included in the number of common shares held by affiliates.

As of November 21, 2019, there were 15,302,320 shares of Class A common stock, par value \$0.001 per share, 1,000,000 shares of Class B-1 common stock, par value \$0.001 per share and 15,000,000 shares of Class B-2 common stock, par value \$0.001 per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2020 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

WARNING CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws. Our forward-looking statements reflect our current views, intents and expectations with respect to, among other things, our operations and financial performance. Our forward-looking statements can be identified by the use of words such as “outlook,” “believe,” “expect,” “potential,” “will,” “may,” “estimate,” “anticipate” and derivatives or negatives of such words or similar words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be factors that could cause actual outcomes or results to differ materially from those stated or implied in these statements. We believe these factors include, but are not limited to the following:

- substantially all our revenues are derived from services to a limited number of client companies;
- our revenues are highly variable;
- changing market conditions that may adversely impact our client companies and our business with them;
- potential terminations of our management agreements with our client companies;
- our ability to expand our business depends upon the growth and performance of our client companies and our ability to obtain or create new clients for our business and is often dependent upon circumstances beyond our control;
- the ability of our client companies to operate their businesses profitably and to grow and increase their market capitalizations and total shareholder returns;
- litigation risks;
- risks related to acquisitions, dispositions and other activities by or among our client companies, such as Service Properties Trust’s (formerly known as Hospitality Properties Trust) recent acquisition of a portfolio of net leased properties for \$2.4 billion, including, among other things, whether the costs and benefits of such acquisition will be as expected;
- risks related to potential impairment of our equity investments;
- allegations, even if untrue, of any conflicts of interest arising from our management activities;
- our ability to retain the services of our managing directors and other key personnel;
- risks associated with and costs of compliance with laws and regulations, including securities regulations, exchange listing standards and other laws and regulations affecting public companies; and
- other risks described under “risk factors” beginning on page 14.

For example:

- We have a limited number of client companies. We have or had long term contracts with our Managed Equity REITs (collectively, Industrial Logistics Properties Trust, a Maryland real estate investment trust, including its subsidiaries, or ILPT; Office Properties Income Trust, a Maryland real estate investment trust, including its subsidiaries, or OPI; Select Income REIT, or SIR (until it ceased to exist on December 31, 2018); Senior Housing Properties Trust, a Maryland real estate investment trust, including its subsidiaries, or SNH; and Service Properties Trust (formerly known as Hospitality Properties Trust), a Maryland real estate investment trust, including its subsidiaries, or SVC); however, the other contracts under which we earn our revenues are for shorter terms, and the long term contracts with our Managed

Equity REITs may be terminated in certain circumstances. The termination or loss of any of our management contracts may have a material adverse impact upon our revenues, profits, cash flows and business reputation;

- Our base business management fees earned from our Managed Equity REITs are calculated monthly based upon the lower of each real estate investment trust's, or REIT's, cost of its applicable assets and such REIT's market capitalization. Our business management fees earned from our Managed Operators (collectively, Five Star Senior Living Inc., a Maryland corporation, including its subsidiaries, or Five Star; Sonesta International Hotels Corporation, a Maryland corporation, including its subsidiaries, or Sonesta; and TravelCenters of America Inc., a Maryland corporation, including its subsidiaries, or TA) are calculated based upon certain revenues from each operator's business. Accordingly, our future revenues, income and cash flows will decline if the business activities, assets or market capitalizations of our client companies decline;
- The fact that we earned significant incentive business management fees from certain Managed Equity REITs in the calendar years 2018, 2017 and 2016 may imply that we will earn incentive business management fees in future years. The incentive business management fees which we may earn from our Managed Equity REITs are based upon total returns realized by the REITs' shareholders compared to the total shareholders return of certain identified indices. We have only limited control over the total returns realized by shareholders of our Managed Equity REITs and effectively no control over indexed total returns. There can be no assurance that we will earn any incentive business management fees in the future;
- We currently intend to pay a regular quarterly dividend of \$0.38 per Class A common share and Class B-1 common share. Our dividends are declared and paid at the discretion of our board of directors. Our board may consider many factors when deciding whether to declare and pay dividends, including our current and projected earnings, our cash flows and alternative uses for any available cash. Our board may decide to lower or even eliminate our dividends. There can be no assurance that we will continue to pay any regular dividends or with regard to the amount of dividends we may pay;
- We have undertaken new initiatives and are considering other initiatives to grow our business and any actions we may take to grow our business may not be successful. In addition, any investments or repositioning of the properties we or our client companies may make or pursue may not increase the value of the applicable properties, offset the decline in value those properties may otherwise experience, or increase the market capitalization or total shareholder returns of our client companies; and
- We state that The RMR Group LLC's \$100.0 million commitment to the RMR Office Property Fund LP, or the Open End Fund, may be drawn in the future by the Open End Fund. The acquisition environment for office properties in the United States is competitive and the Open End Fund may not be successful in drawing and investing all, or any, of this capital.

There are or will be additional important factors that could cause business outcomes or financial results to differ materially from those stated or implied in our forward-looking statements. For example, changing market conditions may lower the market value of our Managed Equity REITs or cause the revenues of our Managed Operators to decline and, as a result, our revenues may decline.

We have based our forward-looking statements on our current expectations about future events that we believe may affect our business, financial condition and results of operations. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot

be predicted or quantified, our forward-looking statements should not be relied on as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected or implied in our forward-looking statements. The matters discussed in this warning should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Annual Report on Form 10-K. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

THE RMR GROUP INC.
2019 FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

Our Company

The RMR Group Inc., or RMR Inc., is a holding company incorporated as a Maryland corporation on May 28, 2015 and substantially all of its business is conducted by its majority owned subsidiary, The RMR Group LLC, or RMR LLC. RMR LLC is a Maryland limited liability company. RMR Inc. serves as the sole managing member of RMR LLC and, in that capacity, operates and controls the business and affairs of RMR LLC. In this Annual Report on Form 10-K, unless otherwise indicated, “we”, “us” and “our” refers to RMR Inc. and its direct and indirect subsidiaries, including RMR LLC.

As of September 30, 2019, RMR Inc. owns 15,302,710 class A membership units of RMR LLC, or Class A Units, and 1,000,000 class B membership units of RMR LLC, or Class B Units. The aggregate RMR LLC membership units RMR Inc. owns represent approximately 52.1% of the economic interest of RMR LLC. ABP Trust, owns 15,000,000 redeemable Class A Units, representing approximately 47.9% of the economic interest of RMR LLC. Adam D. Portnoy, one of our Managing Directors, is the sole trustee of our controlling shareholder, ABP Trust, and owns a majority of ABP Trust’s voting securities.

Since its founding in 1986, RMR LLC has substantially grown assets under management and the number of real estate businesses it manages. As of September 30, 2019, we had \$32.8 billion of assets under management and managed twelve client companies. For more information about our calculation of assets under management, see Item 6, *Selected Financial Data*, included in Part II of this Annual Report on Form 10-K.

Our business primarily consists of providing management services to four real estate investment trusts, or REITs, whose securities are listed on The Nasdaq Stock Market LLC, or Nasdaq, (Industrial Logistics Properties Trust, a Maryland REIT, or ILPT; Office Properties Income Trust, a Maryland REIT, or OPI; Senior Housing Properties Trust, a Maryland REIT, or SNH; and Service Properties Trust (formerly known as Hospitality Properties Trust), a Maryland REIT, or SVC), and three real estate operating companies, or our Managed Operators (Five Star Senior Living Inc., a Maryland corporation, or Five Star; Sonesta International Hotels Corporation, a Maryland corporation, or Sonesta; and TravelCenters of America Inc., a Maryland corporation, or TA).

Until December 31, 2018, RMR LLC provided management services to Select Income REIT, or SIR. On December 31, 2018, SIR merged with and into a subsidiary of OPI (then named Government Properties Income Trust, or GOV), or the GOV/SIR Merger, which then merged with and into OPI, with OPI as the surviving entity. The combined company continues to be managed by RMR LLC pursuant to OPI’s business and property management agreements with RMR LLC. ILPT, OPI, SNH, SVC and, until December 31, 2018, SIR, are collectively referred to as the Managed Equity REITs.

As manager of the Managed Equity REITs, we are responsible for implementing investment strategies and managing day to day operations, subject to supervision and oversight by each Managed Equity REIT’s board of trustees. The Managed Equity REITs have no employees, and we provide the personnel and services necessary for each Managed Equity REIT to conduct its business. The Managed Equity REITs invest in diverse income producing properties across multiple real estate asset classes as follows:

- ILPT (Nasdaq: ILPT) primarily owns and leases industrial and logistics properties. As of September 30, 2019, ILPT owned 300 properties, including 226 buildings, leasable land parcels and easements in Oahu, Hawaii and 74 buildings located in 29 other states.

- OPI (Nasdaq: OPI) primarily owns office properties leased to single tenants and those with high quality credit characteristics, including the government. As of September 30, 2019, OPI owned 200 properties located in 36 states and the District of Columbia.
- SNH (Nasdaq: SNH) primarily owns senior living, medical office and life science properties. As of September 30, 2019, SNH owned 436 properties located in 41 states and the District of Columbia.
- SVC (Nasdaq: SVC) primarily owns a diverse portfolio of hotels and net lease service and necessity-based retail properties. As of September 30, 2019, SVC owned 1,274 properties (328 hotels and 946 net lease properties) located in 48 states, Puerto Rico, Canada and the District of Columbia.

We also provide management services to the Managed Operators that have diverse businesses as follows:

- Five Star (Nasdaq: FVE) operates senior living communities, many of which are owned by SNH. As of September 30, 2019, Five Star operated 267 senior living communities located in 32 states, including 190 communities that it owned or leased and 77 communities that it managed.
- Sonesta is a privately owned franchisor and operator of hotels, resorts and cruise ships in the United States, Latin America, the Caribbean and the Middle East, and some of those U.S. hotels are owned by SVC. As of September 30, 2019, Sonesta's business included 78 properties in seven countries.
- TA (Nasdaq: TA) operates and franchises travel centers along the U.S. Interstate Highway System, many of which are owned by SVC, and standalone truck service facilities and restaurants. As of September 30, 2019, TA's business included operating or franchising 304 properties of which TA owns 58 (51 travel centers, six standalone restaurants and one truck service facility) located in 44 states and Canada.

RMR Advisors LLC, or RMR Advisors, a wholly owned subsidiary of RMR LLC, is an investment advisor registered with the Securities and Exchange Commission, or SEC, which provides advisory services to the RMR Real Estate Income Fund (NYSE MKT: RIF), or RIF, a closed end investment company focused on investing in real estate securities, including REITs and other dividend paying securities (excluding our Client Companies, as defined below).

On August 5, 2016, we acquired certain assets of Tremont Realty Capital LLC, or the Tremont business, which principally originates and manages real estate debt and debt-like financings. As part of this transaction, Tremont Realty Advisors LLC, or Tremont Advisors, a wholly owned subsidiary of RMR LLC and an investment advisor registered with the SEC, was assigned the investment management contracts of the Tremont business. Tremont Advisors manages Tremont Mortgage Trust (Nasdaq: TRMT), or TRMT, a mortgage REIT that focuses primarily on originating and investing in first mortgage whole loans secured by middle market and transitional commercial real estate.

On July 31, 2018, RMR LLC entered into a transaction agreement pursuant to which RMR LLC committed to contribute up to \$100.0 million and, on September 1, 2018, ABP Trust contributed \$206.3 million of owned office properties to a newly formed private open end real estate fund, the RMR Office Property Fund LP, or the Open End Fund. The Open End Fund is focused on the acquisition, ownership and leasing of a diverse portfolio of commercial office properties throughout the United States. The Open End Fund's General Partner is a wholly owned subsidiary of ABP Trust, and RMR LLC and ABP Trust are limited partners of the Open End Fund. RMR LLC provides administrative and property management services to the Open End Fund.

RMR LLC also provides management services to certain related private companies, including Affiliates Insurance Company, or AIC, an Indiana insurance company, and ABP Trust. We refer to the Managed Equity REITs, the Managed Operators, RIF, TRMT, AIC, the Open End Fund, and ABP Trust, and the clients of the Tremont business as our Client Companies. We refer to the Managed Equity REITs and TRMT collectively as the Managed REITs.

Our Business Strategy

Our business strategy is to provide an expanded range of management services to our existing Client Companies, as well as to diversify the number of clients to which we provide services and the sources of capital upon which those clients may rely for growth.

We believe that we have several strengths that distinguish our business from other alternative asset managers:

- Revenue Base. Our revenues are primarily from fees earned under long term agreements with high credit quality companies, many of which are permanent capital vehicles. Our agreements with the Managed Equity REITs are 20 year term evergreen contracts with significant termination fees payable in certain circumstances. For the fiscal year ended September 30, 2019, fees earned from the Managed Equity REITs represented 90.1% of our total revenue.
- Cash Flow and Dividend. Our net income and Adjusted EBITDA for the fiscal year ended September 30, 2019 were \$169.0 million and \$108.4 million, respectively, and we have no debt outstanding. Our prior dividend rate of \$0.35 per share per quarter (\$1.40 per share per year) has been well covered by our earnings and cash flows. We recently announced an increased dividend rate of \$0.38 per share per quarter (\$1.52 per share per year), beginning with the quarterly dividend that we paid on November 14, 2019. This new dividend rate remains well covered by our earnings and cash flows. Adjusted EBITDA is a non U.S. generally accepted accounting principles, or GAAP, financial measure. For a definition of Adjusted EBITDA and a reconciliation of net income to Adjusted EBITDA, see footnote (3) to “Selected Financial Data” on page 31.
- Broad Real Estate Experience. We provide management services to a wide range of real estate assets and businesses that include healthcare facilities, senior living and other apartments, hotels, office buildings, industrial buildings, leased lands, net-lease service and necessity-based retail, including travel centers, and various specialized properties such as properties leased to government tenants and properties specially designed for medical and biotech research. The properties and businesses we managed as of September 30, 2019, are located throughout the United States in 48 states and Washington D.C., and in Puerto Rico and Canada.
- Growth. Since the founding of RMR LLC in 1986, we have substantially grown our real estate assets under management and the number and variety of real estate businesses we manage. As of September 30, 2019, we had \$32.8 billion of assets under management, including more than 2,200 properties. The synergies among our clients may also facilitate their and our growth. We assist our clients in realizing investment opportunities by working together to make acquisitions, obtain financing, identifying possible joint venture partners, completing redevelopment activities, and facilitating capital recycling from strategic property dispositions.

In addition, we expect to use our operating cash flow and we may use our equity or incur debt to fund our growth and diversify our operations. Examples of the diversification of our operations are TRMT and our commitment of \$100.0 million to the Open End Fund. TRMT is our first mortgage REIT and the Open End Fund is our first private open end real estate fund.

- Quality and Depth of Management. Our highly qualified and experienced management team provides a broad base of deep expertise to our clients. Our senior management has worked together through several business cycles in which they acquired, financed, managed and disposed of real estate assets and started real estate businesses. As of September 30, 2019, we employed approximately 600 real estate professionals in more than 30 offices throughout the United States, and the companies we manage collectively had over \$12.0 billion of annual revenues and nearly 50,000 employees. We have also assisted our clients to grow by successfully accessing the capital markets; since our founding in 1986, our clients have successfully completed over \$38.0 billion of financing in over 170 capital raising transactions.
- Alignment of Interests. We believe our structure fosters strong alignment of interests between our principal executive officer and our shareholders because our principal executive officer, Adam D. Portnoy, has a 51.6% economic interest in RMR LLC. Alignment of interests also exists between us and our Managed Equity REITs due to the manner upon which we earn base management fees and incentive management fees under our Management Agreements with the Managed Equity REITs, as described in more detail below.

We can provide no assurance that we will be able to implement our business strategy or achieve our desired growth. Our business and the businesses of our Client Companies are subject to a number of risks and uncertainties. See “Risk Factors” beginning on page 14.

Our Management Agreements with the Managed Equity REITs

RMR LLC is party to a business management agreement and a property management agreement with each Managed Equity REIT. The following is a summary of the terms of our business and property management agreements with the Managed Equity REITs. The summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the actual agreements, copies of which are filed or incorporated as exhibits to this Annual Report on Form 10-K.

Business Management Agreement Services

Each business management agreement requires RMR LLC to use its reasonable best efforts to present the Managed Equity REIT with a continuing and suitable real estate investment program consistent with the REIT’s real estate investment policies and objectives.

Subject to the overall management, direction and oversight of the Board of Trustees of each Managed Equity REIT, RMR LLC has the responsibility to:

- provide research and economic and statistical data in connection with the Managed Equity REIT’s real estate investments and recommend changes in the Managed Equity REIT’s real estate investment policies when appropriate;
- investigate, evaluate and negotiate contracts for the investment in, or the acquisition or disposition of, real estate and related interests, financing and refinancing opportunities and make recommendations concerning specific real estate investments to the Board of Trustees of the Managed Equity REIT;
- investigate, evaluate, prosecute and negotiate any of the Managed Equity REIT’s claims in connection with its real estate investments or otherwise in connection with the conduct of the Managed Equity REIT’s business;
- administer bookkeeping and accounting functions as required for the Managed Equity REIT’s business and operation, contract for audits and prepare or cause to be prepared reports and filings required by a governmental authority in connection with the conduct of the Managed

Equity REIT's business, and otherwise advise and assist the Managed Equity REIT with its compliance with applicable legal and regulatory requirements;

- advise and assist in the preparation of all equity and debt offering documents and all registration statements, prospectuses or other documents filed by the Managed Equity REIT with the SEC or any state;
- retain counsel, consultants and other third party professionals on behalf of the Managed Equity REIT;
- provide internal audit services;
- advise and assist with the Managed Equity REIT's risk management and business oversight function;
- advise and assist the Managed Equity REIT with respect to the Managed Equity REIT's public relations, preparation of marketing materials, internet website and investor relations services;
- provide communication facilities for the Managed Equity REIT and its officers and trustees and provide meeting space as required;
- provide office space, equipment and experienced and qualified personnel necessary for the performance of the foregoing services; and
- to the extent not covered above, advise and assist the Managed Equity REIT in the review and negotiation of the Managed Equity REIT's contracts and agreements, coordination and supervision of all third party legal services and oversight for processing of claims by or against the Managed Equity REIT.

Property Management Agreement Services

Under each property management agreement, RMR LLC is required to act as managing agent for each Managed Equity REIT's properties and devote such time, attention and effort as may be appropriate to operate and manage the Managed Equity REIT's properties in a diligent, orderly and efficient manner. Subject to the overall management and supervision of the Board of Trustees of each Managed Equity REIT, RMR LLC has the responsibility to:

- seek tenants for the Managed Equity REIT's properties and negotiate leases;
- collect rents and other income from the Managed Equity REIT's properties;
- make contracts for, and supervise repairs and/or alterations on, the Managed Equity REIT's properties;
- for the Managed Equity REIT's account and at its expense, hire, supervise and discharge employees as required for the efficient operation and maintenance of the Managed Equity REIT's properties;
- obtain appropriate insurance for the Managed Equity REIT's properties and notify the Managed Equity REIT's insurance carriers with respect to casualties or injuries at the properties;
- procure supplies and other necessary materials;
- pay from rental receipts, other income derived from the Managed Equity REIT's properties or other monies made available by the Managed Equity REIT for such purpose, all costs incurred in the operation of the Managed Equity REIT's properties that are expenses of the Managed Equity REIT;

- establish reasonable rules and regulations for tenants of the Managed Equity REIT's properties;
- institute or defend, on the Managed Equity REIT's behalf and in the Managed Equity REIT's name, any and all legal actions or proceedings relating to the operation of the Managed Equity REIT's properties;
- maintain the books and records of the Managed Equity REIT reflecting the management and operation of the Managed Equity REIT's properties and prepare and deliver statements of expenses for tenants of the REIT's properties;
- aid, assist and cooperate with the Managed Equity REIT in matters relating to taxes and assessments and insurance loss adjustments;
- provide emergency services as may be required for the efficient management and operation of the Managed Equity REIT's properties; and
- arrange for day to day operations of the Managed Equity REIT's properties, including water, fuel, electricity, cleaning and other services.

Term and Termination

The terms of the business and property management agreements with each Managed Equity REIT end on December 31, 2039, and automatically extend on December 31st of each year so that the terms thereafter end on the 20th anniversary of the date of the extension. A Managed Equity REIT has the right to terminate its management agreements with RMR LLC: (1) at any time upon 60 days' written notice for convenience, (2) immediately upon written notice for cause, as defined in the agreements, (3) on written notice given within 60 days after the end of any calendar year for a performance reason, as defined in the agreements, and (4) by written notice during the 12 months following a manager change of control, as defined in the agreements. RMR LLC has the right to terminate the management agreements for good reason, as defined in the agreements.

If a Managed Equity REIT terminates a management agreement for convenience, or if RMR LLC terminates a management agreement with a Managed Equity REIT for good reason, the Managed Equity REIT is obligated to pay RMR LLC a termination fee equal to the sum of the present values of the monthly future fees, as defined in the agreement, payable for the remaining term of the agreement, assuming it had not been terminated. If a Managed Equity REIT terminates a management agreement for a performance reason, as defined in the agreement, the Managed Equity REIT is obligated to pay RMR LLC the termination fee calculated as described above, but assuming a remaining term of ten years.

The management agreements provide for certain adjustments to the termination fees if a Managed Equity REIT merges with another REIT to which RMR LLC is providing management services or if the Managed Equity REIT spins off a subsidiary to which it contributed properties and to which RMR LLC is providing management services both at the time of the spin off and on the date of the expiration or termination of either of the management agreements.

A Managed Equity REIT is not required to pay any termination fee if it terminates its business or property management agreements for cause, or as a result of a manager change of control, in each case as defined in such agreements.

Business Management Agreement Fees and Expense Reimbursement

Each business management agreement between RMR LLC and a Managed Equity REIT provides for (i) an annual base management fee, payable monthly in arrears, and (ii) an annual incentive business management fee.

The annual base management fee generally is calculated as the lesser of:

- the sum of (a) 0.5% of the historical cost of transferred real estate assets, if any, as defined in the applicable business management agreement, plus (b) 0.7% of the average invested capital (exclusive of the transferred real estate assets), as defined in the applicable business management agreement, up to \$250.0 million, plus (c) 0.5% of the average invested capital exceeding \$250.0 million; and
- the sum of (a) 0.7% of the average market capitalization, as defined in the applicable business management agreement, up to \$250.0 million, plus (b) 0.5% of the average market capitalization exceeding \$250.0 million.

The annual incentive business management fee payable by each Managed Equity REIT, if any, is calculated as follows:

- The incentive business management fee is calculated as an amount equal to 12.0% of the product of (a) the equity market capitalization of the Managed Equity REIT, as defined in the applicable business management agreement, on the last trading day of the year immediately prior to the measurement period, and (b) the amount, expressed as a percentage, by which the Managed Equity REIT's total return per share realized by its common shareholders (i.e. share price appreciation plus dividends) or the "total return per share," exceeds the total shareholder return of a specified REIT index, the "benchmark return per share," for the relevant measurement period, with each of (a) and (b) subject to adjustments for common shares issued by the Managed Equity REIT during the measurement period.
- The specified REIT index utilized to calculate the benchmark return per share for each of our Managed Equity REITs when calculating the incentive business management fees is as follows:
 - ILPT: On December 31, 2018, our business management agreement with ILPT was amended to provide that for periods beginning on and after January 1, 2019, the SNL U.S. Industrial REIT Index would be utilized. Prior to January 1, 2019, the SNL U.S. REIT Equity Index was utilized.
 - OPI: On December 31, 2018, our business management agreement with OPI was amended to provide that for periods beginning on and after January 1, 2019, the SNL U.S. Office REIT Index would be utilized. Prior to January 1, 2019, the SNL U.S. REIT Equity Index was utilized.
 - SNH: SNL U.S. REIT Healthcare Index
 - SVC: SNL U.S. REIT Hotel Index
- No incentive business management fee is payable by the Managed Equity REIT unless its total return per share during the measurement period is positive.
- The measurement period for an annual incentive business management fee is defined as the three year period ending on December 31 of the year for which such fee is being calculated, except for ILPT, whose annual incentive business management fee is based on a shorter period from its initial public offering on January 12, 2018 through the applicable calendar year end.
- If the Managed Equity REIT's total return per share exceeds 12% per year in the measurement period, the benchmark return per share is adjusted to be the lesser of the total shareholder return of the specified REIT index for such measurement period and 12% per year, or the "adjusted benchmark return per share." In instances where the adjusted benchmark return per share applies, the incentive fee will be reduced if the Managed Equity

REIT's total return per share is between 200 basis points and 500 basis points below the specified REIT index by a low return factor, as defined in the applicable business management agreement, and there will be no incentive business management fee paid if, in these instances, the Managed Equity REIT's total return per share is more than 500 basis points below the specified REIT index.

- The incentive management fee payable by the Managed Equity REIT is subject to a cap equal to the value of the number of its common shares which would, after issuance, represent (a) 1.5% of the number of its common shares outstanding on December 31 of the year for which such fee is being calculated multiplied by (b) the average closing price of its common shares during the 10 consecutive trading days having the highest average closing prices during the final 30 trading days of the relevant measurement period.
- Incentive fees paid by the Managed Equity REIT for any measurement period may be subject to certain "clawback" if the financial statements of the Managed Equity REIT for that measurement period are restated due to material non-compliance with any financial reporting requirements under the securities laws as a result of the bad faith, fraud, willful misconduct or gross negligence of RMR LLC and the amount of the incentive fee paid by the Managed Equity REIT was greater than the amount it would have paid based on the restated financial statements.

If the business management agreement is terminated, the base business management fee and incentive business management fee due in respect of any partial period prior to the date of termination will be prorated as provided in the agreement.

In connection with the GOV/SIR Merger, we agreed to waive our right to receive payment of the termination fee otherwise due under our business and property management agreements with SIR, as after the merger, we continued to manage the combined company under our existing business and property management agreements with OPI and continued to manage ILPT under our existing business and property management agreements with ILPT.

Under each business management agreement: the Managed Equity REIT pays or reimburses RMR LLC for all of the expenses relating to the Managed Equity REIT's activities, including the costs and expenses of investigating, acquiring, owning and disposing of its real estate (third party property diligence costs, appraisal, reporting, audit and legal fees), its costs of borrowing money, its costs of securities listing, transfer, registration and compliance with reporting requirements and its costs of third party professional services, including legal and accounting fees, and as otherwise agreed; and RMR LLC bears its general and administrative expenses relating to its performance of its obligations under the agreement, including expenses of its personnel, rent and other office expenses. Also, the allocable cost of internal audit services is reimbursed by each Managed Equity REIT to RMR LLC.

Property Management Agreement Fees and Expense Reimbursement

No property management fees are payable by a Managed Equity REIT to RMR LLC for any hotels, senior living communities or travel centers which are leased to, or managed by, a Managed Operator or another operating business such as a hotel management company or a senior living or healthcare services provider. For other properties, each property management agreement between RMR LLC and a Managed Equity REIT provides for (i) a management fee equal to 3.0% of the gross rents collected from tenants and (ii) a construction supervision fee equal to 5.0% of the cost of any construction, renovation or repair activities at the Managed Equity REIT's properties, other than ordinary maintenance and repairs. Also, under each property management agreement, the Managed Equity REIT pays certain allocable expenses of RMR LLC in the performance of its duties, including

wages for onsite property management personnel and allocated costs of centralized property management services.

Other Provisions

Under both the business and property management agreements, each Managed Equity REIT has agreed to indemnify RMR LLC, its members, officers, employees and affiliates against liabilities relating to acts or omissions of RMR LLC with respect to the provision of services by RMR LLC, except to the extent such provision of services was in bad faith or fraudulent, constituted willful misconduct or was grossly negligent. In addition, each management agreement provides that any disputes, as defined in those agreements, arising out of or relating to the agreement or the provision of services pursuant thereto, upon the demand of a party to the dispute, will be subject to mandatory arbitration in accordance with procedures provided in the agreement.

Our Management Agreements with the Managed Operators

RMR LLC provides services and earns fees pursuant to a business management agreement with each of the Managed Operators. Under these agreements, RMR LLC provides services to the Managed Operators relating to, or assists them with, among other things, their compliance with various laws and rules applicable to them, capital markets and financing activities, maintenance of their properties, selection of new business sites and evaluation of other business opportunities, accounting and financial reporting, internal audit, investor relations and general oversight of the company's daily business activities, including legal and tax matters, human resources, insurance programs and management information systems.

Each Managed Operator pays RMR LLC a fee under its business management agreement in an amount equal to 0.6% of: (i) for Five Star, Five Star's revenues from all sources reportable under GAAP, other than revenues reportable by Five Star with respect to properties for which Five Star provides management services, plus the gross revenues of properties managed by Five Star determined in accordance with GAAP; (ii) for Sonesta, Sonesta's revenues from all sources reportable under GAAP, other than any revenues reportable by Sonesta with respect to hotels for which Sonesta provides management services, plus the revenues of hotels managed by Sonesta (except to the extent such managed hotel revenues are included in Sonesta's gross revenues under GAAP); and (iii) for TA, the sum of TA's gross fuel margin, determined as TA's fuel sales revenues less its cost of fuel sales, plus TA's total nonfuel revenues. In addition, the business management agreement with each Managed Operator provides that the compensation of senior executives of the Managed Operator, who are also employees or officers of RMR LLC, is the responsibility of the party to or on behalf of which the individual renders services. In the past, because at least 80.0% of each of these executives' business time was devoted to services to the Managed Operator, 80.0% of these executives' total cash compensation was paid by the Managed Operator and the remainder was paid by RMR LLC.

The terms of the business management agreements with each Managed Operator end on December 31, 2019, and automatically extend for successive one year terms, unless RMR LLC or the applicable Managed Operator gives notice of non-renewal before the expiration of the applicable term. Also, a Managed Operator may terminate its business management agreement at any time (i) for Five Star and TA, on 60 days' notice and RMR LLC may terminate such agreements at any time on 120 days' notice and (ii) for Sonesta, on 30 days' notice and RMR LLC may terminate its agreement with Sonesta on 30 days' notice. If Five Star or TA terminates or elects not to renew its agreement, other than for cause as defined in each agreement, the Managed Operator is obligated to pay RMR LLC a termination fee equal to 2.875 times the sum of the annual base management fee and the annual internal audit services expense, which amounts are based on averages during the 24 consecutive calendar months prior to the date of notice of nonrenewal or termination.

Each Managed Operator has agreed to indemnify RMR LLC, its members, officers, employees and affiliates against liabilities relating to acts or omissions of RMR LLC with respect to the provision of services by RMR LLC, except to the extent such provision of services was in bad faith or was grossly negligent. In addition, each agreement provides that any disputes, as defined in those agreements, arising out of or relating to the agreement or the provision of services pursuant thereto, upon the demand of a party to the dispute, shall be subject to mandatory arbitration in accordance with procedures provided in the agreement.

Our Management Agreements with AIC, ABP Trust and the Open End Fund

RMR LLC provides business management services to AIC for a fee calculated as 3.0% of the total premiums paid for insurance arranged by AIC. AIC's property insurance program expired on June 30, 2019 and was not continued. As a result, AIC has not incurred any management fees payable to RMR LLC since that date. AIC is currently in the process of dissolving.

RMR LLC provides business and property management services to our controlling shareholder, ABP Trust, for which it receives, depending upon the services provided, a business management fee in an annual amount equal to 0.6% of ABP Trust's revenues from all sources reportable under GAAP, a property management fee in an amount equal to 3.0% of rents collected from managed properties and a construction supervision fee in an amount equal to 5.0% of the cost of any construction, renovation or repair activities at the managed properties, other than ordinary maintenance and repairs.

RMR LLC manages the Open End Fund and receives annual fund administration fees equal to 1.0% of the Open End Fund's net asset value, property management fees equal to 3.0% of all rents collected from commercial real estate investments, and 5.0% of costs of construction or any improvement at commercial real estate investments held by the Open End Fund.

Our Advisory Agreements

RMR Advisors is party to an investment advisory agreement with RIF. Pursuant to this agreement, RMR Advisors provides RIF with a continuous investment program, makes day to day investment decisions and generally manages the business affairs of RIF in accordance with its investment objectives and policies. RMR Advisors is compensated pursuant to its agreement with RIF at an annual rate of 0.85% of RIF's average daily managed assets, as defined in the agreement. Average daily managed assets includes the net asset value attributable to RIF's outstanding common shares, plus the liquidation preference of RIF's outstanding preferred shares plus the principal amount of any borrowings, including from banks or evidenced by notes, commercial paper or other similar instruments issued by RIF.

RMR Advisors' agreement with RIF continues until September 7, 2020 and continues thereafter from year to year or for such longer term as may be approved by RIF's board of trustees, as permitted by the Investment Company Act of 1940, as amended, or the Investment Company Act. So long as required by the Investment Company Act, the agreement is terminable by RIF on 60 days' notice and automatically in the event of an assignment, as defined in the Investment Company Act.

Tremont Advisors is party to a management agreement with TRMT. Pursuant to this agreement, Tremont Advisors provides TRMT with a continuous investment program, makes day to day investment decisions and generally manages the business affairs of TRMT in accordance with TRMT's investment objectives and policies.

Tremont Advisors is compensated pursuant to its management agreement with TRMT at an annual rate of 1.5% of TRMT's equity, as defined in the agreement. Tremont Advisors may also earn

an incentive fee under the management agreement beginning in the fourth quarter of calendar year 2018 equal to the difference between: (a) the product of (i) 20% and (ii) the difference between (A) TRMT's core earnings, as defined in the agreement, for the most recent 12 month period (or such lesser number of completed calendar quarters, if applicable), including the calendar quarter (or part thereof) for which the calculation of the incentive fee is being made, and (B) the product of (1) TRMT's equity in the most recent 12 month period (or such lesser number of completed calendar quarters, if applicable), including the calendar quarter (or part thereof) for which the calculation of the incentive fee is being made, and (2) 7% per year and (b) the sum of any incentive fees paid to Tremont Advisors with respect to the first three calendar quarters of the most recent 12 month period (or such lesser number of completed calendar quarters preceding the applicable period, if applicable). No incentive fee shall be payable with respect to any calendar quarter unless TRMT's core earnings for the 12 most recently completed calendar quarters (or such lesser number of completed calendar quarters from the date of the completion of the TRMT initial public offering) in the aggregate is greater than zero. The incentive fee may not be less than zero. In June 2018, Tremont Advisors agreed to waive any business management fees otherwise due and payable by TRMT pursuant to the management agreement for the period beginning July 1, 2018 until June 30, 2020. In addition, no incentive fee was or will be paid or payable by TRMT to Tremont Advisors for the 2018 or 2019 calendar years.

The initial term of the management agreement with TRMT ends on December 31, 2020, and the agreement will automatically renew for successive one year terms beginning January 1, 2021 and each January 1 thereafter, unless it is sooner terminated upon written notice delivered no later than 180 days prior to a renewal date by the affirmative vote of at least two-thirds ($\frac{2}{3}$) of the independent trustees of TRMT based upon a determination that (a) Tremont Advisors' performance is unsatisfactory and materially detrimental to TRMT or (b) the base management fee and incentive fee, taken as a whole, payable to Tremont Advisors under the management agreement are not fair to TRMT (provided that in the instance of (b), Tremont Advisors will be afforded the opportunity to renegotiate the base management fee and incentive fee prior to termination). The management agreement may be terminated by Tremont Advisors before each annual renewal upon written notice delivered to the board of trustees of TRMT no later than 180 days prior to an annual renewal date.

In the event the management agreement is terminated by TRMT without a cause event or by Tremont Advisors for a material breach, TRMT will be required to pay Tremont Advisors a termination fee equal to (a) three times the sum of (i) the average annual base management fee and (ii) the average annual incentive fee, in each case paid or payable to Tremont Advisors during the 24 month period immediately preceding the most recently completed calendar quarter prior to the date of termination or, if such termination occurs within 24 months of its initial commencement, the base management fee and the incentive fee will be annualized for such two year period based on such fees earned by Tremont Advisors during such period, plus (b) an amount equal to the initial organizational costs related to TRMT's formation and the costs of the TRMT initial public offering and the concurrent private placement paid by Tremont Advisors. No termination fee will be payable if the management agreement is terminated by TRMT for a cause event or by Tremont Advisors without TRMT's material breach.

Tremont Advisors, and not TRMT, will be responsible for the costs of Tremont Advisors' employees who provide services to TRMT, including the cost of Tremont Advisors' personnel who originate TRMT's loans, unless any such payment or reimbursement is specifically approved by a majority of the independent trustees of TRMT, is a shared services cost or relates to awards made under any equity compensation plan adopted by TRMT from time to time. TRMT is required to pay or to reimburse Tremont Advisors and its affiliates for all other costs and expenses of TRMT's operations, including but not limited to, the costs of rent, utilities, office furniture, equipment, machinery and other overhead type expenses, the costs of legal, accounting, auditing, tax planning

and tax return preparation, consulting services, diligence costs related to TRMT's investments, investor relations expenses and other professional services, and other costs and expenses not specifically required under the management agreement to be borne by Tremont Advisors. Some of these overhead, professional and other services will be provided by RMR LLC pursuant to a shared services agreement between Tremont Advisors and RMR LLC. In addition, TRMT will also pay its pro rata costs of any combined directors and officers liability or other insurance programs arranged by RMR LLC for public companies managed by RMR LLC or its affiliates and TRMT's pro rata portion of internal audit costs incurred by RMR LLC on behalf of TRMT and other public companies to which RMR LLC or its affiliates provides management services.

Our Organizational Structure

(In this "Business—Our Organizational Structure" section, the words, "we," "our" and "us" refer solely to RMR Inc.)

The RMR LLC Operating Agreement

The operating agreement of RMR LLC, or the LLC Operating Agreement, governs the operations of RMR LLC and the rights and obligations of its members. The material terms of the LLC Operating Agreement are summarized below. The summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the actual agreement, a copy of which is incorporated by reference as an exhibit to this Annual Report on Form 10-K.

Governance

Through our status as the managing member of RMR LLC, we exercise control over RMR LLC and are responsible for all operational and administrative decisions of RMR LLC and the day to day management of RMR LLC's business. No other members of RMR LLC, in their capacity as such, have any authority or right to control the management of RMR LLC or to bind it in connection with any matter, except that members of RMR LLC generally have voting rights in connection with (i) the transfer by us of our managing member interest in RMR LLC, (ii) the dissolution of RMR LLC and (iii) amendments to the LLC Operating Agreement. If RMR LLC proposes to engage in a material transaction, including a merger, consolidation or sale of substantially all of its assets, we, as the managing member of RMR LLC, have the power and authority to approve or prevent such a transaction; provided, however, that we may not transfer all or any portion of our interest in RMR LLC without the majority consent of the non-managing members of RMR LLC. Currently we and ABP Trust are the only members of RMR LLC.

Distributions by RMR LLC to its members

Pursuant to the LLC Operating Agreement, we determine when distributions will be made to the members of RMR LLC and the amount of any such distributions, except that RMR LLC is required by the LLC Operating Agreement to make certain pro rata distributions to each member of RMR LLC quarterly on the basis of the assumed tax liabilities of the members and in connection with a dissolution of RMR LLC.

Members of RMR LLC, including us, incur U.S. federal, state and local income taxes on their allocable share of any net taxable income of RMR LLC. Net profits and net losses of RMR LLC are generally allocated to its members pro rata in accordance with the percentage interest of the units they hold. In accordance with the LLC Operating Agreement, we cause RMR LLC to make cash distributions to its members for purposes of funding their tax obligations in respect of the income of RMR LLC that is allocated to them. Generally, these tax distributions are computed based on our estimate of the net taxable income of RMR LLC allocable to the member multiplied by an assumed

tax rate equal to the highest effective marginal combined U.S. federal and state income tax rate prescribed for an individual or corporation (taking into account the nondeductibility of certain expenses and the character of our income). Additional amounts may be distributed by RMR LLC if needed to meet our tax obligations and our obligations pursuant to the tax receivable agreement, dated June 5, 2015, by and among RMR Inc., RMR LLC and ABP Trust, or the Tax Receivable Agreement.

We are not permitted to cause RMR LLC to make distributions that would render it insolvent. All distributions from RMR LLC are made to the members of RMR LLC pro rata in accordance with the percentage economic interest of the units they hold.

Coordination of RMR Inc. and RMR LLC

Under the LLC Operating Agreement, RMR LLC is permitted to issue additional units from time to time provided that they are substantially equivalent to additional equity securities issued from time to time by us. RMR LLC is generally restricted from issuing additional membership units of RMR LLC to us unless (i) (A) the additional units are (x) Class A Units issued in connection with an issuance of our Class A Common Shares, or Class A shares, (y) Class B Units issued in connection with an issuance of our class B-1 common stock of RMR Inc., par value \$0.001 per share, or Class B-1 Common Shares, or (z) units issued in connection with an issuance of our equity securities where the units and equity securities being issued have substantially the same rights (other than voting rights), restrictions, limitations as to distributions, qualifications and terms and conditions of redemption, and (B) we contribute to RMR LLC the cash proceeds or other consideration we receive (less amounts for which we are permitted to be reimbursed under the LLC Operating Agreement), if any, in connection with the issuance or (ii) the additional units are issued upon the conversion, redemption or exchange of debt, units or other securities issued by RMR LLC.

At any time we issue any equity securities, we have agreed to contribute to RMR LLC the net proceeds, if any, we receive in connection with the issuance, less amounts (issuance costs, underwriting discounts, etc.) for which we are permitted to be reimbursed under the LLC Operating Agreement. In exchange for the contribution, RMR LLC has agreed to issue to us (i) in the case of an issuance of Class A Common Shares, an equivalent number of Class A Units, (ii) in the case of an issuance of Class B-1 Common Shares, an equivalent number of Class B Units or (iii) in the case of an issuance of any other type of equity securities, an equivalent number of units of RMR LLC with substantially the same rights (other than voting rights), restrictions, limitations as to distributions, qualifications and terms and conditions of redemption.

Conversely, if we redeem or repurchase any of our equity securities, RMR LLC will, immediately prior to the redemption or repurchase, redeem or repurchase, upon the same terms and for the same price, an equal number of (i) in the case of a redemption or repurchase of Class A Common Shares, Class A Units held by us, (ii) in the case of a redemption or repurchase of Class B-1 Common Shares, Class B Units held by us or (iii) in the case of a redemption or repurchase of any other type of our equity securities, equity securities of RMR LLC held by us with substantially the same rights (other than voting rights), restrictions, limitations as to distributions, qualifications and terms and conditions of redemption, as the equity securities are redeemed or repurchased.

The LLC Operating Agreement restricts us and RMR LLC from subdividing or combining our or its outstanding equity securities without the other making an identical subdivision or combination, as the case may be, of its corresponding outstanding equity.

If, at any time, any of our equity securities are converted or exchanged into other equity securities, in whole or in part, then a number of the corresponding membership units of RMR LLC held by us equal to the number of equity securities being so converted or exchanged shall automatically be converted or exchanged, as the case may be, into that same number of

membership units of RMR LLC that correspond to the number of equity securities issued in such conversion or exchange.

The Class A Units not held by us and our class B-2 common stock of RMR Inc., par value \$0.001 per share, or Class B-2 Common Shares, constitute “paired interests.” If RMR LLC issues additional Class A Units to someone other than us, we have agreed to issue to that member an equivalent number of our Class B-2 Common Shares. Each Class B-2 Common Share entitles the holder to ten votes per share, and, accordingly, the issuance of additional Class B-2 Common Shares would have a significant dilutive effect on the voting power of the then current holders of our Class A Common Shares.

Redemption rights of holders of Class A Units

Holders of Class A Units, other than us, may cause RMR LLC to redeem their Class A Units for Class A Common Shares on a one for one basis. At our option, we may elect to pay cash in lieu of Class A Common Shares for some or all of such redeemed Class A Units; the amount of the alternative cash payment will be based on the market price of the Class A Common Shares as determined pursuant to the LLC Operating Agreement. For each Class A Unit redeemed, we will automatically redeem the corresponding Class B-2 Common Share, comprising the “paired interest” for no additional consideration.

Transfers of membership units of RMR LLC

Membership units of RMR LLC are generally subject to restrictions on transfer in accordance with the terms of the LLC Operating Agreement. Under the LLC Operating Agreement, we may not transfer any of our membership units of RMR LLC without the majority consent of the non-managing members of RMR LLC. Under the LLC Operating Agreement, Class A Units and Class B-2 Common Shares comprising “paired interests” may be transferred to a permitted transferee, including Adam D. Portnoy, qualified employees, the immediate family members of Adam D. Portnoy or qualified employees, any of their respective lineal descendants or any entity controlled by ABP Trust or an individual named above. In addition, Class A Units and Class B-2 Common Shares comprising “paired interests” may be transferred by the creation of certain security interests, by will or pursuant to the laws of descent and distribution or in any transfer approved in advance by our Board of Directors.

Indemnification and exculpation

Under the LLC Operating Agreement, RMR LLC has agreed to indemnify, to the maximum extent permitted by Maryland law, the current or former members of RMR LLC, executive officers or directors (or equivalent) of us or RMR LLC, and current or former executive officers or directors (or equivalent) of us or RMR LLC serving at our request as an executive officer or director (or equivalent) of another corporation, partnership, joint venture, limited liability company, trust or other entity, except in respect of a matter for which (i) there has been a final and non-appealable judgment entered by a court or arbitration panel of competent jurisdiction determining that, in respect of the matter, the indemnified person actually received an improper benefit or profit in money, property, or services or (ii) there has been a final, non-appealable judgment or adjudication adverse to the person entered by a court or arbitration panel of competent jurisdiction in a proceeding based on a finding in the proceeding, in respect of the matter, that the person’s action or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

Except as otherwise expressly provided in the LLC Operating Agreement or in any written agreement, the LLC Operating Agreement provides that we, our affiliates and executive officers, the

tax matters partner of RMR LLC and the executive officers of RMR LLC will not be liable to RMR LLC or to any non-managing member of RMR LLC for any act or omission performed or omitted by or on behalf of (i) us, in our capacity as the sole managing member of RMR LLC, (ii) our affiliate, in its, his or her capacity as such, (iii) the tax matters partner, in its capacity as such, or (iv) an executive officer of RMR LLC, in his or her capacity as an officer of RMR LLC, except that the limitation of liability will not apply to limit the liability of a person in respect of a matter if (a) there has been a final, non-appealable judgment entered by a court or arbitration panel of competent jurisdiction determining that, in respect of the matter, the person actually received an improper benefit or profit in money, property, or services or (b) there has been a final, non-appealable judgment or adjudication adverse to the person entered by a court or arbitration panel of competent jurisdiction in a proceeding based on a finding in the proceeding, in respect of the matter, that the person's action or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

Dissolution

RMR LLC may be dissolved only upon the occurrence of certain events specified in the LLC Operating Agreement, including the approval of the managing member of RMR LLC and the unanimous approval of the members of RMR LLC that then hold any units with voting rights.

Tax Receivable Agreement

In connection with the RMR LLC reorganization on June 5, 2015, we purchased Class A Units from ABP Trust. In the future, additional Class A Units may be redeemed by ABP Trust for our Class A Common Shares or cash. We expect that, as a result of both this initial purchase and any future redemptions of Class A Units for our Class A Common Shares or cash, the tax basis of the assets of RMR LLC attributable to our interests in RMR LLC will be increased. These increases in the tax basis of the assets of RMR LLC attributable to our interests in RMR LLC would not have been available to us but for this initial purchase and future redemptions of Class A Units for Class A Common Shares or cash. Such increases in tax basis are likely to increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of income tax we would otherwise be required to pay in the future. These increases in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent the increased tax basis is allocated to those capital assets. The United States Internal Revenue Service, or IRS, may challenge all or part of these tax basis increases, and a court might sustain such a challenge.

We and RMR LLC have entered into the Tax Receivable Agreement with ABP Trust, the material terms of which are summarized below. This summary of the Tax Receivable Agreement does not purport to be complete and is subject to, and qualified in its entirety by, reference to the actual agreement, a copy of which is incorporated by reference as an exhibit to this Annual Report on Form 10-K.

The Tax Receivable Agreement provides for the payment by us to ABP Trust of 85.0% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we realize as a result of (a) the increases in tax basis attributable to our dealings with ABP Trust and (b) tax benefits related to imputed interest deemed to be paid by us as a result of this Tax Receivable Agreement. We expect to benefit from the remaining 15.0% of cash savings, if any, in income tax that we realize. For purposes of the Tax Receivable Agreement, cash savings in income tax will be computed by comparing our income tax liability to the amount of such taxes that we would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of RMR LLC as a result of our purchase of RMR LLC Class A Units and the future redemptions, if any, and had we not entered into the Tax Receivable Agreement. The term of the Tax Receivable Agreement commenced on June 5, 2015 and will continue until all such tax benefits

have been utilized or expired, unless the Tax Receivable Agreement is terminated upon a change of control or upon certain breaches of the agreement that we fail to cure in accordance with the terms of the agreement.

ABP Trust will not reimburse us for any payments made under the Tax Receivable Agreement. As a result, in certain circumstances, we may make payments to ABP Trust under the Tax Receivable Agreement in excess of our cash tax savings. While the amount and timing of any payments under this agreement will vary depending upon a number of factors, including the timing of redemptions, the price of our Class A Common Shares at the time of the redemption, the extent to which such redemptions are taxable and the amount and timing of our income, we expect that, as a result of the size of the increases of the tangible and intangible assets of RMR LLC attributable to our interests in RMR LLC, during the expected term of the Tax Receivable Agreement, the payments that we may make to ABP Trust could be substantial. Payments made under the Tax Receivable Agreement are required to be made within 80 days of the filing of our tax returns. Because we generally expect to receive the tax savings prior to making the cash payments to the redeeming holders of Class A Units, we do not expect the cash payments to have a material impact on our liquidity.

The Tax Receivable Agreement provides that, upon certain changes of control and certain breaches of the agreement that we fail to cure in accordance with the terms of the agreement, our obligations with respect to exchangeable Class A Units will be accelerated. In those circumstances, our obligations under the Tax Receivable Agreement would be based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits described in the Tax Receivable Agreement, and that any Class A Units that have not been redeemed will be deemed redeemed for the market value of our Class A Common Shares at the time of the change of control or breach, as applicable. It is possible, in these circumstances, that the cash tax savings realized by us may be significantly less than the corresponding Tax Receivable Agreement payments.

Regulation

We and our Client Companies are subject to supervision and regulation by state, federal and non-U.S. governmental authorities and are subject to various laws and judicial and administrative decisions imposing various requirements and restrictions upon the ways in which we and our Client Companies do business including various requirements for public disclosure of our and their activities.

The Managed REITs have qualified and expect to continue to qualify to be taxed as real estate investment trusts under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, or the Code. In addition, the Managed Equity REITs generally distribute, and TRMT is expected to generally distribute, 100.0% of their taxable income to avoid paying corporate federal income taxes; and as REITs, such companies must currently distribute, at a minimum, an amount equal to 90.0% of their taxable income. REITs are also subject to a number of organizational and operational requirements in order to elect and maintain REIT status, including share ownership tests and assets and gross income composition tests. If a Managed REIT fails to continue to qualify as a REIT under Sections 856 through 860 of the Code in any taxable year, it will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if a Managed REIT qualifies for taxation as a REIT, it may be subject to state and local income taxes and to federal income tax and excise tax on its undistributed income.

Certain of our Client Companies own or operate healthcare and senior living properties. These companies are subject to numerous federal, state and local laws and regulation that are subject to frequent and material changes (sometimes applied retroactively) resulting from legislation, adoption

of rules and regulations and administrative and judicial interpretations of existing laws. Some of the revenues received by these companies are paid by governmental programs which are also subject to periodic and material changes.

Certain of our Client Companies own and operate hotels and some provide dining, food and beverage services, including the sale of alcoholic beverages. The operation of such properties is subject to numerous regulations by various governmental entities.

TA is also required to comply with federal and state regulations regarding the storage and sale of petroleum and natural gas products and franchising of petroleum retailers. In addition, as a result of TA's involvement in gaming operations, TA and certain of its subsidiaries are subject to gaming regulations in Illinois, Louisiana, Montana, Nevada and Pennsylvania; and because SVC owns TA properties where gaming occurs, SVC is also subject to gaming regulations in some of those jurisdictions.

RMR Advisors and Tremont Advisors is each registered with the SEC as investment advisers under the Investment Advisers Act of 1940, as amended, or the Investment Advisers Act. RMR Advisors provides investment advisory and administrative services to RIF. RIF is a closed end investment company registered under the Investment Company Act of 1940, as amended, or the Investment Company Act. In addition to providing investment advisory services to TRMT, Tremont Advisors also provides investment advisory services to private funds and separately managed accounts that principally make commercial real estate debt investments. The Tremont business may also act as transaction originators for its non-investment advisory clients. These activities result in certain aspects of our asset management business being supervised by the SEC and requires our compliance with numerous obligations, including record keeping requirements, operational procedures and disclosure obligations. TRMT intends to conduct its business in a manner that does not require its registration under the Investment Company Act and, to do so, may rely on any available exemption from registration, or exclusion from the definition of "investment company," under the Investment Company Act. To maintain this exemption from registration, TRMT will be required to ensure the composition of its portfolio complies with certain tests.

The ownership and operation of real estate properties are subject to various federal, state and local laws and regulations concerning the protection of the environment, including air and water quality, hazardous or toxic substances and health and safety. Certain of our Client Companies own real estate, and we may be responsible for compliance with some of these environmental protection laws.

While we incur significant expense to comply with the various regulations to which we and our Client Companies are subject, we do not believe that existing statutes and regulations have had a material adverse effect on our business. However, it is not possible to forecast the nature of future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon our future business, financial condition, results of operations or prospects.

Competition

The asset management industry is intensely competitive, and we expect it to remain so. Our continued growth will depend upon our ability to manage or assist our Client Companies in an effective manner and identify and execute on opportunities to expand our services to new clients and new sources of capital.

Our existing Client Companies face significant competition in their respective sectors or industries. The Managed Equity REITs and the Open End Fund compete on a national and regional basis with many third parties engaged in real estate investment activities including other publicly traded REITs, non-traded REITs, insurance companies, commercial and investment banking firms, private institutional funds, private equity funds and other investors. Five Star competes with numerous other companies that provide senior living services, including home healthcare companies and other real estate based service providers. Sonesta competes with other hotel operators and franchisors. TA competes on a national and local basis with companies operating travel centers, as well as retailers operating in the convenience store and retail gas station industries and in the restaurant business. TRMT competes on a national and regional basis with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds (including funds or investors that we or our affiliates may sponsor, advise or manage), banks, credit unions, insurance companies and other financial institutions.

We compete with other businesses in the real estate management and asset management businesses. Many of these competitors may have greater financial, technical, marketing and other resources than we or our Client Companies have. Such competitors may also enjoy significant competitive advantages that result from, among other things, a lower cost of capital, greater business scale and enhanced operating efficiencies. Certain competitors may also be subject to different regulatory regimes or rules that may allow them more flexibility or better access to pursue potential investments and raise capital for themselves or their managed companies. In addition, certain competitors may have higher risk tolerance, different risk assessments or lower return thresholds, which could allow them to consider a broader range of investments and to bid more aggressively for investment opportunities. Our ability and the ability of our Client Companies to continue to compete effectively will depend in large part upon the ability to attract, retain and motivate employees.

Employees

As of September 30, 2019, RMR LLC employed approximately 600 real estate professionals in more than 30 offices throughout the United States, and the companies managed by RMR LLC collectively had nearly 50,000 employees. None of our employees is subject to a collective bargaining agreement, but certain employees of our Client Companies are.

Internet Website

Our internet website address is www.rmrgroup.com. We make available, free of charge, through the "Investors & Media" section of our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after these forms are filed with, or furnished to, the SEC. Any material we file with or furnish to the SEC is also maintained on the SEC website (sec.gov).

The information on or accessible through our website is not incorporated by reference into this Annual Report on Form 10-K or other documents we file with, or furnish to, the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on our website in the "Investors & Media" section. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

Emerging Growth Company Status

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies.” These exemptions include not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

We expect to take advantage of some of the reduced regulatory and reporting requirements that will be available to us as long as we qualify as an emerging growth company.

We can remain an emerging growth company up to September 30, 2021, unless we:

- have more than \$1.07 billion in annual revenues in a fiscal year;
- issue more than \$1.0 billion of non-convertible debt during the preceding three year period; or
- become a “large accelerated filer” as defined in Rule 12b-2 promulgated under the Exchange Act, which would occur after: (i) we have filed at least one annual report pursuant to the Exchange Act; (ii) we have been a company reporting with the SEC for at least 12 months; and (iii) the market value of our common shares that are held by non-affiliates equals or exceeds \$700.0 million as of the last business day of our most recently completed second fiscal quarter.

Based on the current market value of our non-affiliated public float of our Class A Common Shares, we currently expect that we may cease to be an emerging growth company as of September 30, 2020.

Item 1A. Risk Factors

Our business is subject to a number of risks and uncertainties. Prospective investors should carefully consider the risks described below, together with all of the other information in this Annual Report on Form 10-K. The risks described below may not be the only risks we face but are risks we believe may be material at this time. Additional risks and uncertainties that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described below occur, our business, financial condition or results of operations and the trading price of our securities could decline. Investors and prospective investors should consider the following risks, the information contained under the heading “Warning Concerning Forward Looking Statements” and the risks described elsewhere in this Annual Report on Form 10-K before deciding whether to invest in our securities. We may update these risk factors in our future periodic reports.

Risks Related to Our Business

Substantially all of our revenues are derived from our provision of management services to a limited number of companies. The loss or failure, or decline in business or assets, of any of the Managed Equity REITs could substantially reduce our revenues.

The fees we earn from providing management services to the Managed Equity REITs comprise substantially all our revenues. Our revenues depend in large part on the ability of the Managed Equity REITs to raise capital to invest in real estate assets and on the positive performance of their investments and shareholder returns. Our Managed Equity REITs are subject to a number of risks

and uncertainties. Therefore, our operating results and our ability to maintain and grow our revenues depends upon the ability of our Managed Equity REITs and their significant tenants and operators, some of which are our Managed Operators, to maintain and grow their respective businesses. Our operating results and our ability to maintain and grow our revenues also depend upon the ability of our Managed Equity REITs ability to maintain and grow their market capitalizations and to achieve positive shareholder returns in excess of applicable REIT total shareholder return indexes. Reduced business activities, market capitalizations or shareholder returns, sales of assets or the failure of any of the Managed Equity REITs or the termination of their management agreements with us would materially reduce our revenues and our profitability.

Our revenues may be highly variable.

RMR LLC's business management agreement with each Managed Equity REIT provides for a base business management fee that is based on the lower of the average historical costs of the Managed Equity REIT's assets under management or its average market capitalization, as calculated in accordance with the applicable business management agreement, and an incentive business management fee that is based on the Managed Equity REIT's relative outperformance of a specified REIT total shareholder return index. The management fees we earn under these agreements are highly variable. For example, the base business management fee payable by a Managed Equity REIT may increase or decrease materially as the Managed Equity REIT acquires or disposes of real estate assets or its market capitalization increases or decreases. In addition, our earning incentive fees under these agreements is not assured; we generally only earn an incentive business management fee under our business management agreement with a Managed Equity REIT if it outperforms an identified REIT total shareholder return index during the measurement period and certain other conditions are satisfied, as measured at the end of the applicable measurement period. The shareholder returns realized by a Managed Equity REIT, its market capitalization and its ability to raise capital or make investments may be impacted by trends in the Managed Equity REIT's portfolio, the U.S. real estate industry generally, the Managed Equity REIT's industry specifically or other factors that are outside of our or its control. Further, the fees we earn under our property management agreements with the Managed Equity REITs are based on a percentage of the rents our Managed Equity REITs receive and a percentage of the costs of construction, in each case, at properties we manage for them. To the extent our Managed Equity REITs receive reduced rent or incur lower construction costs, our revenues may significantly decline. Also, the fees under our management agreements with the Managed Operators are based on a percentage of revenues (in the case of TA, gross fuel margin and nonfuel revenues) earned by them or generated at the properties they manage. A material decline in those revenues may significantly reduce our revenues.

We may not realize the level of revenues we have earned in the past under our management agreements and advisory agreements with our Client Companies and the amount of fees we receive may decrease. The revenues we earn may fluctuate significantly and may materially decline. For example, in the fiscal years ended September 30, 2019, 2018 and 2017, incentive business management fees earned from the Managed Equity REITs were 39.9%, 44.3% and 22.6%, respectively, of our management and advisory services revenues. If we do not earn incentive fees, our future revenues may be significantly less than our historical revenues. Additionally, OPI and SNH are executing on their stated goals of disposing up to \$700 million and \$900 million, respectively, in assets, and SVC has stated that it intends to sell up to \$800 million in assets, in each case as part of their near term capital plans to reduce leverage. These sales could reduce our business and property management services revenue, despite our Client Companies' acquisition activities, including SVC's acquisition in September 2019 of a portfolio of net leased properties for \$2.4 billion. Additionally, our business management fees and incentive management fees are also adversely impacted when Managed Equity REITs' share prices decline. Due to recent declines in the share

prices of our Managed Equity REITs, most notably OPI and SNH, we could experience adverse impacts to our operating results.

Our management and advisory agreements with our Client Companies are subject to termination, and any such termination could have a material adverse effect on our business, results of operations and financial condition.

Our management and advisory agreements with our Client Companies may be terminated by a Client Company or by us in certain circumstances. Depending upon the circumstances of a termination, we may or may not be entitled to receive a termination fee. If any of our management or advisory agreements with a Client Company is terminated, we may be unable to replace the lost revenue. Even if we receive a termination fee upon the termination of a management agreement with a Client Company, we may be unable to invest the after tax proceeds from the termination fee we receive in opportunities that earn returns equal to or greater than the revenues lost as a result of the terminated management agreement. The termination of our management agreement or advisory agreement with any of our Client Companies could have a material adverse impact on our business, results of operations and financial condition.

The commercial real estate industry has been and may continue to be adversely affected by economic conditions in the United States generally.

Our business and operations are significantly dependent on conditions in the commercial real estate industry, which in turn is impacted by general economic conditions in the United States. Commercial real estate markets in the United States were significantly negatively impacted during the most recent recession. Although commercial real estate markets have improved, with valuations approaching, and in some cases exceeding, 2007 levels, new challenges have arisen, including uncertain U.S. Federal Reserve policy regarding interest rates, increasing real estate development activities, recent declines in global economic conditions and global trade policies and actions. Adverse conditions in the commercial real estate industry and declining real estate values could harm our business and financial condition by limiting our and our Client Companies' access to debt and equity capital and our and their ability to grow our and their businesses. Adverse conditions may also give rise to an increase in tenant defaults under our Client Companies' leases, defaults of TRMT's loans and other investments, and decreased market capitalizations for the Managed Equity REITs. An economic slowdown or recession or declining real estate values could materially and adversely affect us and our Client Companies.

The asset management business is highly competitive.

Our business is highly competitive, and our success will be determined by a variety of factors, including, without limitation, the following:

- other asset managers may have greater financial, technical, marketing and other resources and more personnel than our Client Companies and we do;
- other asset managers may offer more services than we do or may be more adept at developing, marketing and managing new services than we are;
- our Client Companies may not perform as well as other companies, including companies managed by other asset managers;
- other asset managers and the companies that compete with our Client Companies may have access to more capital or access to capital at lower costs than our Client Companies and we do;

- other asset managers may have stronger ties within certain industries or communities from which they identify investment opportunities;
- other asset managers and the companies that compete with our Client Companies may have higher risk tolerance, different risk assessment or a lower return threshold, which could allow them to acquire a wider variety of assets and a broader range of investments and as a result we and our Client Companies may grow our business less and more slowly than those competitors;
- there are few barriers to entry into the asset management business, and the successful efforts of new entrants into the asset management business are expected to continue to result in increased competition;
- other asset managers may have better expertise or be regarded by potential clients as having better expertise with regard to specific assets or investments;
- other asset managers may have more scalable platforms and may operate more efficiently than we do;
- other asset managers may have better brand recognition than we have, and there is no assurance that we will maintain a positive brand in the future;
- our competitors may from time to time recruit our employees away from us; and
- the market for qualified professionals is intensely competitive, and our ability to continue to compete effectively will also depend upon our ability to attract, retain and motivate our key and talented personnel.

If we fail to compete effectively, our business, results of operations and financial condition may be materially adversely impacted.

Changes in market interest rates may significantly reduce our revenues or impede our growth.

Changes in market interest rates may be sudden and may significantly reduce our revenues or impede our growth. Since the most recent U.S. economic recession, the U.S. Federal Reserve has taken actions which have resulted in low interest rates prevailing in the marketplace for a historically long period of time. The U.S. Federal Reserve steadily increased the targeted federal funds rate over the last several years, but recently took action to decrease its federal funds rate and may continue to make adjustments in the near future. Increases in market interest rates may materially and negatively affect us. One of the factors that investors typically consider important in deciding whether to buy or sell the common shares of our Managed REITs is the distribution rate with respect to such shares relative to prevailing market interest rates. If market interest rates go up, investors may expect a higher distribution rate before investing in a Managed REIT or they may sell the Managed REITs' common shares and seek alternate investments with a higher distribution rate. Sales of common shares of the Managed Equity REITs may cause a decline in the market prices of such shares, which reduces the market capitalizations and total shareholder returns of the Managed Equity REITs, which, in turn, may materially reduce the fees we earn under our business management agreements with them. Moreover, an increase in interest rates could raise borrowing costs for our Client Companies, negatively impact their access to capital to fund future growth, reduce their earnings and total shareholder returns and cause borrowers from TRMT to default, which may materially reduce the fees we earn under our business management agreements with our Client Companies.

Low market interest rates, particularly if they remain over a sustained period, may result in increased use of debt capital to fund property acquisitions, lower capitalization rates for property

purchases and increased competition for property purchases, which may reduce the amount of property acquisitions by our Client Companies and, in turn, impede our ability to grow and realize increased management fees from our Client Companies.

Significant legal proceedings may adversely affect our results of operations or financial condition.

We and our clients are subject to the risk of litigation, derivative claims, securities class actions, regulatory and governmental investigations and other litigation including proceedings arising from investor dissatisfaction with the performance of our clients and our clients' relationships with us and amongst themselves. If any claims were brought against us and resulted in a finding of substantial legal liability, the finding could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could significantly adversely impact our business. Allegations of improper conduct by private litigants or regulators, regardless of veracity, may harm our reputation, impact our relationship with our Client Companies and adversely impact the ability of our Client Companies and us to grow our respective businesses.

If we cannot retain and motivate our key and talented personnel and recruit, retain and motivate new talented personnel, our business, results and financial condition could be adversely affected.

Our continued success depends to a great extent on our ability to retain and motivate our key and talented personnel and strategically to recruit, retain and motivate new talented personnel. However, we may not be successful in these efforts as the market for qualified employees in the asset management industry is extremely competitive. Historically we have not had employment agreements with our key employees and we have no present intention to enter into any. Our ability to recruit, retain and motivate our personnel is dependent on our ability to offer attractive compensation, opportunities for professional growth and a desirable work environment. In addition, our Client Companies have historically granted equity awards to our officers and certain other employees of ours. If our Client Companies reduce the amount of, or stop making, similar grants in the future, or if the value of any equity awards they may grant are lower than anticipated, we may need to increase the amount of compensation we pay to offset the reduction in compensation our officers and other applicable employees would otherwise receive. In order to recruit and retain existing and future personnel, we may need to increase the level of compensation that we pay to them, which may cause a higher amount of our revenue to be paid out in the form of compensation, which may have an adverse impact on our profits.

We depend on our controlling shareholder and other key and talented personnel.

We depend on the efforts, skills, reputations and business contacts of our controlling shareholder, Adam D. Portnoy, and other key and talented personnel. The extent and nature of the experience of our executive officers and of the relationships they have with real estate professionals and financial institutions, although not a guarantee of positive results, are critical to the success of our business. The loss of the services of any of them or the loss of investor confidence in such personnel could have a material adverse effect on our revenues, operating income and cash flows and could impair our ability to maintain or grow assets under management in our Client Companies or otherwise maintain or grow our business.

We do not have significant experience managing a mortgage REIT or a private real estate investment fund.

With our acquisition of the Tremont business in 2016 and the closing of the initial public offering of TRMT in 2017, we entered the commercial real estate finance business. We do not have

significant experience in this business, and our only experience managing a mortgage REIT is with TRMT. It took longer to invest TRMT's capital than originally expected. In recognition of this longer investment period, Tremont Advisors agreed to waive the base management fee payable by TRMT for the period July 1, 2018 through June 30, 2020 and any incentive management fee that it may earn for the 2018 or 2019 calendar years. TRMT's success, the return on our \$17.7 million investment in TRMT common shares and the payment of the base management and incentive management fees, if any, payable to Tremont Advisors under its management agreement with TRMT after the waiver period will depend on numerous factors, including TRMT's ability to make investments that generate attractive, risk-adjusted returns, as well as its ability to access financing on acceptable terms. Additionally, based on the length of time and the extent to which the market value of our TRMT investment was below our carrying value during the 2018 and 2019 fiscal years, we determined that the declines in fair value was other than temporary. Accordingly, we recorded impairments of \$4.4 million and \$6.2 million on our investment in TRMT during the fiscal years ended September 30, 2018 and 2019, respectively, to reduce the carrying value to its fair value. There can be no assurance that we will be successful in this business, that TRMT will achieve its objectives and operate successfully, or that we will earn fees from TRMT sufficient to recover the costs we have incurred or to provide a suitable return on our investment in TRMT.

In 2018, we entered the private, open end, real estate investment fund market through the formation of and our agreement to invest up to \$100.0 million in the Open End Fund, our payment of approximately \$1.6 million of costs related to the organization and commencement of the Open End Fund and our agreement to manage the Open End Fund. We have no experience investing in or managing a private real estate fund. The Open End Fund may not be successful in raising additional funds to further expand or successfully operate. There can be no assurance that the Open End Fund will achieve its objectives, or that it will identify and invest successfully in properties. The Open End Fund's success, the return on our investment in the Open End Fund and fees payable to RMR LLC under its management agreements with the Open End Fund will depend on numerous factors, including its ability to make investments that generate attractive, risk-adjusted returns, as well as its ability to access financing on acceptable terms. There can be no assurance that we will be successful in managing this business, that the Open End Fund will achieve its objectives and operate successfully, or that we will earn fees from the Open End Fund sufficient to recover the costs we have incurred or to provide a suitable return on our investment in the Open End Fund.

We are subject to substantial regulation and numerous contractual obligations and internal policies, and failure to comply with these provisions could have a material adverse effect on our business, financial condition and results of operations.

We are subject to substantial regulation and numerous contractual obligations and internal policies. We are subject to regulation by the SEC, the Nasdaq, and other federal, state and local or international governmental bodies and agencies or self-regulatory organizations. Moreover, RMR Advisors and Tremont Advisors must comply with the Investment Advisers Act. We are also responsible for managing or assisting with the regulatory aspects of certain of our Client Companies, including the Managed REITs' compliance with applicable REIT rules, RIF's compliance with the Investment Company Act and TRMT's maintenance of its exemption from registration under the Investment Company Act. The level of regulation and supervision to which we and our Client Companies are subject varies from jurisdiction to jurisdiction and is based on the type of business activity involved. For example, we and TRMT may also be subject to state licensing requirements to conduct lending activities. The regulations to which we and our Client Companies are subject are extensive, complex and require substantial management time and attention. Our or our Client Companies' failure to comply with any of the regulations, contractual obligations or policies applicable to it may subject us to extensive investigations, as well as substantial penalties and reputational risk, and our business and operations could be materially adversely affected.

Our lack of compliance with applicable law could result in, among other things, our inability to enforce contracts, our default under contracts (including our management agreements or advisory agreements with our Client Companies) and our ineligibility to contract with, and receive revenue from, governmental authorities and agencies, our Client Companies or other third parties. We have numerous contractual obligations with which we must comply on a continuous basis to operate our business, the default of which could have a material adverse effect on our business and financial condition. We have established internal policies designed to ensure that we manage our business in accordance with applicable law and regulation and in accordance with our contractual obligations. These internal policies may not be effective in all regards; and, if we fail to comply with our internal policies, we could be subjected to additional risk and liability.

If we are unable to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act or our internal control over financial reporting is not effective, the reliability of our financial statements may be questioned and the market price of our Class A Common Shares may suffer.

Section 404 of the Sarbanes-Oxley Act requires any company subject to the reporting requirements of the U.S. securities laws to do a comprehensive evaluation of its and its consolidated subsidiaries' internal control over financial reporting. We are an "emerging growth company" as defined in the JOBS Act, and therefore we currently may avail ourselves of certain exemptions from the Sarbanes-Oxley Act. Although our management is required to assess and issue a report concerning our internal control over financial reporting, our independent auditors are not currently required to audit and issue an opinion on our internal control over financial reporting. The rules governing the standards that must be met for management to assess our internal control over financial reporting are complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules. During the course of its testing, our management may identify material weaknesses or deficiencies which may not be remedied in time to meet the deadline imposed by the Sarbanes-Oxley Act. If our management cannot favorably assess the effectiveness of our internal control over financial reporting or our auditors identify material weaknesses in our internal controls, investors may lose confidence in our reported financial results and the market price of our Class A Common Shares may decline.

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

The protection of Client Companies', employee and company data is critically important to us. We rely on information technology and systems, including the Internet and cloud-based infrastructures, commercially available software and our internally developed applications, to process, transmit, store and safeguard information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which may include personal identifying information of employees and tenants and lease data. If we experience material failures, inadequacies or interruptions or security failures of our information technology, we could incur material costs and losses. Further, third party vendors could experience similar events with respect to their information technology and systems that impact the products and services they provide to us or our Client Companies. We rely on commercially available systems, software, tools and monitoring, as well as our internally developed applications and internal procedures and personnel, to provide security for processing, transmitting, storing and safeguarding confidential tenant, customer and vendor information, such as personally identifiable information related to our employees and others and information regarding our and our Client Companies' financial accounts. We take various actions, and we incur significant costs, to maintain and protect the operation and security of our information technology and systems, including the data maintained in those systems. However, it is possible that these measures will not prevent the systems' improper functioning or a compromise in security, such as in the event of a cyberattack or the improper disclosure of personally identifiable information.

Security breaches, computer viruses, attacks by hackers, online fraud schemes and similar breaches can create significant system disruptions, shutdowns, fraudulent transfer of assets or unauthorized disclosure of confidential information. For example, in June 2017, we became aware that we had been a victim of criminal fraud in which a person pretending to be a representative of a seller in a property acquisition transaction provided fraudulent money wire instructions that caused money to be wire transferred to an account that was believed to be, but was not, the seller's account. See Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K for further information related to this fraud. The cybersecurity risks to us, our Client Companies and third party vendors are heightened by, among other things, the evolving nature of the threats faced, advances in computer capabilities, new discoveries in the field of cryptography and new and increasingly sophisticated methods used to perpetuate illegal or fraudulent activities against us, including cyberattacks, email or wire fraud and other attacks exploiting security vulnerabilities in our or other third parties' information technology networks and systems or operations. Any failure to maintain the security, proper function and availability of our information technology and systems, or certain third party vendors' failure to similarly protect their information technology and systems that are relevant to our or our Client Companies' operations, or to safeguard our or our Client Companies' business processes, assets and information could result in financial losses, interrupt our operations, damage our reputation, cause us to be in default of material contracts and subject us to liability claims or regulatory penalties, any of which could materially and adversely affect us.

Two of our subsidiaries, RMR Advisors and Tremont Advisors, are registered with the SEC as investment advisers under the Investment Advisers Act. Compliance with laws and regulations applicable to registered investment advisers is complex and the failure of these subsidiaries to do so may adversely impact our business.

Our subsidiaries, RMR Advisors and Tremont Advisors, are registered with the SEC as investment advisers under the Investment Advisers Act. The Investment Advisers Act requires registered investment advisers to comply with numerous obligations, including compliance, record keeping, operating and marketing requirements, disclosure obligations and limitations on certain activities. Investment advisers also may owe fiduciary duties to certain of their clients. These regulatory and fiduciary obligations may result in increased costs or otherwise adversely impact our business. If RMR Advisors or Tremont Advisors fails to meet its respective compliance and fiduciary obligations under the Investment Advisers Act, it may be subject to litigation, regulatory investigations and enforcement actions, fines and penalties, or it may be unable or no longer permitted to provide investment advisory services to its clients, which would reduce our revenues.

Employee misconduct could harm us by subjecting us to significant legal liability, reputational harm and loss of business.

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our business and our authority over the companies and assets we manage. The violation of these obligations and standards by any of our employees may adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to our clients. If our employees improperly use or disclose confidential information, we and the concerned client could suffer serious harm to our and its reputation, financial position and current and future business relationships and face potentially significant litigation. It is not always possible to detect or deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. If any of our employees were to engage in or be accused of misconduct, our business and our reputation could be adversely affected. Misconduct by an employee might rise to the level of a default that would permit a Client Company to terminate its management agreements or advisory

agreements with us for cause and without paying a termination fee, which could materially adversely affect our business, results of operations and financial condition.

RMR LLC's required quarterly tax distributions may limit our ability to implement our business or pursue growth opportunities.

The LLC Operating Agreement requires RMR LLC to make certain pro rata distributions to each member of RMR LLC, including RMR Inc., quarterly on the basis of the assumed tax liabilities of the members. From time to time, RMR LLC's cash flows from operations may be insufficient to enable it to make required minimum tax distributions to its members. RMR LLC may have to borrow funds or sell assets to fund its distribution requirements, and thereby materially adversely affect our liquidity and financial condition. Further, by making cash distributions rather than investing that cash in our businesses, we might risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise. In such event, we may not be able to implement our business and growth strategy to the extent intended. In addition, we may have to borrow additional amounts to fund our operations or make capital expenditures, in which case our borrowing costs would increase and our liquidity would be negatively impacted.

Risks Related to the Businesses of Our Client Companies

Five Star Senior Living Inc. and Senior Housing Properties Trust have agreed to restructure their business arrangements to address to Five Star Senior Living Inc.'s financial and operating challenges, but those arrangements are subject to conditions and, even if completed, may not result in the benefits they expect and the fees we earn from them may decline.

In April 2019, Five Star and SNH agreed to restructure their business arrangements. Five Star and SNH entered into a transaction agreement to address financial and operating challenges Five Star faces under current challenging conditions in the senior living industry. In connection with this agreement, among other things, all of the senior living communities that SNH owns that Five Star operates will be operated by Five Star pursuant to long term management agreements and Five Star will issue shares of its common stock to SNH and SNH's shareholders such that, after giving effect to those issuances, SNH will own approximately 34% of Five Star's outstanding common stock and SNH shareholders will receive shares representing approximately 51% of Five Star's outstanding common stock. These transactions are expected to be completed on January 1, 2020, but they are subject to the satisfaction of certain conditions and they may be delayed or not consummated. Current conditions in the senior living industry are challenging and it is not certain whether, even if these transactions are completed, Five Star will be able to successfully operate its business or whether SNH will receive sufficient returns on its investment in its senior living communities. If Five Star is unable to operate its business successfully, the fees we earn from Five Star will decline and SNH may be materially and adversely impacted. SNH's share price has experienced significant declines, which has reduced its market capitalization and shareholder returns and resulted in our earning reduced fees from SNH. Further, in order to reduce leverage and adjust its investment portfolio, SNH has announced an intention to sell up to \$900 million of assets. Those sales may result in further reductions in the fees we earn from SNH.

Risks associated with our Client Companies' businesses could adversely affect their respective abilities to grow, generate revenue and pay management fees to us and, thereby, adversely affect our business.

We have presented in this Annual Report on Form 10-K historical fees that we have earned from our Client Companies. The historical fees earned from our Client Companies, including those

presented in this Annual Report on Form 10-K, should not be considered as indicative of the future results of our Client Companies or of our future results. The risks associated with each Client Company's business could adversely affect its ability to carry out its business plans and objectives, and, as a result, could adversely impact its ability to pay us management or advisory fees or cause the amounts of those fees to decline. For more information see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview."

Risks to our Client Companies include, but are not limited to, the following:

- the Managed Equity REITs face competition for tenants at substantially all of their properties and competing properties may be more attractive to tenants;
- our Client Companies face significant competition for investment opportunities from other investors, some of which have greater financial resources, including publicly traded REITs, non-traded REITs, insurance companies, banking firms, private institutional funds, private equity funds and other investors;
- rising interest rates may increase operating costs, reduce the value of properties and make raising capital difficult for our Client Companies, whereas a sustained period of low interest rates may increase the amount of debt capital available, which may result in declining capitalization rates for property acquisitions and impede the growth of our Client Companies' businesses;
- changing general economic and financial market conditions could significantly reduce the value of the real estate, loans and other investments of our Client Companies and reduce the amounts earned on those investments;
- the real estate and real estate related investments of our Client Companies may be less liquid than other investments, and the ability of our Client Companies to adjust their portfolios in response to changes in economic or other conditions may be limited;
- changes in investor preferences or market conditions could limit our Client Companies' ability to raise capital to competitively maintain their properties and operations or make new investments;
- shareholder activism, complaints about management strategies and structures, corporate governance and other matters may divert management attention and be disruptive to the operation of our Client Companies;
- changes in tax laws, regulation or accounting rules may make certain types of investments in or by our Client Companies less valuable;
- our Client Companies are exposed to environmental, building and other laws, natural disasters and other factors beyond their control as a result of their investment in real estate;
- our Client Companies have significant investments in certain types of assets, such as hotels, senior living communities, healthcare properties and travel centers, and market changes which impact these specific types of assets (e.g., new competition for short term accommodations, changes in Medicare and Medicaid rates and fuel efficiency improvements) may adversely impact certain of the Client Companies' ability to maintain or grow their business;
- the failure of a Managed REIT to continue to qualify as a REIT would subject it to U.S. federal income tax and reduce cash available for distributions to its shareholders, adversely impacting its ability to raise capital and operate its business; and
- complying with REIT requirements may cause a Managed REIT to forgo otherwise attractive opportunities or liquidate otherwise attractive investments.

Many of our Client Companies are SEC registrants and file reports with the SEC as required by the Exchange Act. A discussion of the businesses and the risks associated with the businesses of our Client Companies that are SEC registrants is contained in the reports filed by our Client Companies, including in the section captioned “Risk Factors” in each Managed REIT’s, Five Star’s and TA’s Annual Reports on Form 10-K for the year ended December 31, 2018, as those Risk Factors may have been updated or supplemented in those companies’ Quarterly Reports on Form 10-Q filed subsequently, and RIF’s applicable filings with the SEC. Copies of these reports are available at the SEC’s website, www.sec.gov.

Risks Related to Our Securities

A trading market that provides adequate liquidity may not be sustained for our Class A Common Shares and the market price of our Class A Common Shares may fluctuate widely.

Our public float represents about 48.4% of the economic interest in RMR LLC. As a result, a significant amount of the economic interest in RMR LLC is not represented in our public float, which may adversely impact trading in our Class A Common Shares. There can be no assurance that an active trading market for our Class A Common Shares will be sustained in the future.

The market price of our Class A Common Shares may fluctuate widely, depending upon many factors, some of which are beyond our control, including, but not limited to, the following:

- a relatively thin trading market for our Class A Common Shares could cause trades of small blocks of shares to have a significant impact on the price of our Class A Common Shares;
- our quarterly or annual earnings, or those of other comparable companies;
- actual or anticipated fluctuations in our operating results;
- changes in accounting standards, policies, guidance, interpretations or principles;
- announcements by us, our Client Companies or our competitors of significant investments, acquisitions or dispositions;
- the inclusion, exclusion, or deletion of our Class A Common Shares from any trading indices;
- the failure of securities analysts to cover our Class A Common Shares;
- changes in earnings estimates by securities analysts or in our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations; and
- general economic conditions.

Stock markets in general often experience volatility that is unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our Class A Common Shares. Our shareholders may not be able to resell their Class A Common Shares following periods of volatility because of the market’s adverse reaction to volatility.

The reduced disclosure requirements applicable to us as an “emerging growth company” may make our Class A Common Shares less attractive to investors.

We are an “emerging growth company” as defined in the JOBS Act, and we may avail ourselves of certain exemptions from various reporting requirements of public companies that are not “emerging growth companies,” including, but not limited to, an exemption from complying with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure

obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirement of holding a nonbinding advisory vote on executive compensation and obtaining shareholder approval of any golden parachute payments not previously approved. We may remain an emerging growth company until September 30, 2021, although, based on the current market value of our nonaffiliated public float of our Class A Common Shares, we currently expect that we may cease to be an emerging growth company as of September 30, 2020. If some investors find our Class A Common Shares less attractive as a result of the exemptions available to us as an emerging growth company, there may be a less active trading market for our Class A Common Shares, and the trading price of our Class A Common Shares may be more volatile than that of an otherwise comparable company that does not avail itself of the same or similar exemptions. We cannot predict if investors will find our Class A Common Shares less attractive because we rely on the JOBS Act exemptions.

Our shareholders' percentage ownership in us may be diluted in the future.

Our shareholders' percentage ownership in us may be diluted in the future because of our future issuance of equity or equity linked securities and our grant of equity awards to our directors, executive officers and employees.

Some investors may be precluded from investing in our Class A Common Shares as a result of our dual class capital structure, which may adversely affect the trading price of our Class A Common Shares.

In July 2017, S&P Dow Jones, a provider of widely followed stock indices, announced that companies with multiple share classes, such as ours, will not be eligible for inclusion in certain of their indices. In addition, several stockholder advisory firms have announced their opposition to the use of multiple class structures. As a result, our Class A Common Shares will likely not be eligible for these stock indices and may cause stockholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. In September 2017, FTSE Russell, another provider of widely followed stock indices, adopted rules requiring new constituents of its indices to have at least five percent of their voting rights in the hands of public stockholders. Many investment funds are precluded from investing in companies that are not included in such indices, and these funds would be unable to purchase our Class A Common Shares. We cannot assure you that other stock indices will not take a similar approach to S&P Dow Jones or FTSE Russell in the future. Exclusion from indices could make our Class A Common Shares less attractive to investors and, as a result, the market price of our Class A Common Shares could be adversely affected. Additionally, any actions or publications by stockholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A Common Shares.

Our dividend policy is subject to change.

RMR Inc. currently plans to pay a regular quarterly cash dividend equal to \$0.38 per share (\$1.52 per share per year) to holders of its Class A Common Shares. However, the amount of distributions RMR LLC may make in the future is not certain, and there is no assurance that future distributions will be made. The declaration and payment of dividends to our shareholders will be at the discretion of our Board of Directors, which may change the distribution policy or discontinue the payment of dividends at any time. Any change in our dividend policy could have a material adverse effect on the market price of our Class A Common Shares.

Risks Related to Our Relationships with Our Controlling Shareholder and Our Client Companies

Our controlling shareholder controls our voting power, and our other shareholders will have less influence over our business than shareholders of most other publicly owned companies.

Substantially all of the voting power in RMR Inc. and a majority of the economic interest in RMR LLC is held by ABP Trust, an entity controlled by its sole trustee and one of our Managing Directors, Adam D. Portnoy. RMR Inc. is the managing member of RMR LLC. As of September 30, 2019, Adam D. Portnoy beneficially owned, in aggregate, directly and indirectly through ABP Trust, (i) 144,502 shares of our Class A Common Shares; (ii) all of our outstanding Class B-1 Common Shares; (iii) all of our outstanding Class B-2 Common Shares; and (iv) approximately 49.5% of our outstanding Class A Units of RMR LLC. Our Class B-1 Common Shares and Class B-2 Common Shares entitle holders to ten votes per share. As a result of this ownership, as of September 30, 2019, Adam D. Portnoy beneficially owned in aggregate, directly and indirectly through ABP Trust, a combined direct and indirect 51.6% economic interest in RMR LLC and controlled 91.4% of the aggregate voting power of our outstanding capital stock. As a result of this voting control, Adam D. Portnoy is effectively able to determine the outcome of all matters requiring shareholder approval, including, but not limited to, election of our directors. Adam D. Portnoy is able to cause or prevent a change of control of RMR Inc., and this voting control could preclude any unsolicited acquisition of RMR Inc. The voting control of Adam D. Portnoy could deprive our shareholders of an opportunity to receive a premium for their Class A Common Shares as part of a sale of us and may affect the market price of our Class A Common Shares.

Our management agreements with the Managed Equity REITs may discourage our change of control.

Each Managed Equity REIT may terminate its management agreements with us if we experience a change of control, as defined in those agreements, without payment of any termination fee. We may be unable to duplicate the long term management arrangements we have with each of the Managed Equity REITs. For these reasons, the management agreements may discourage a change of control of us, including a change of control which might result in payment of a premium for our Class A Common Shares.

The registration of two of our subsidiaries under the Investment Advisers Act may discourage our change of control.

Two of our subsidiaries, RMR Advisors and Tremont Advisors, are registered as investment advisers under the Investment Advisers Act. Any change in control of RMR Advisors or Tremont Advisors, as defined in and interpreted pursuant to the Investment Advisers Act, would trigger a shareholder approval right by RIF shareholders, TRMT or other advisory clients of RMR Advisors or Tremont Advisors as applicable, under that Act. The need for such approval may discourage a change of control of us, including a change of control which might result in payment of a premium for our Class A Common Shares.

The ability of ABP Trust to sell its ownership stake in us and speculation about any such sale may adversely affect the market price of our Class A Common Shares.

ABP Trust controls 100.0% of our Class B-1 Common Shares (which are exchangeable for Class A Common Shares) and Class B-2 Common Shares, some of our currently outstanding Class A Common Shares and approximately 49.5% of our Class A Units of RMR LLC (which ABP Trust may cause RMR LLC to redeem for, at our election, Class A Common Shares on a one for one basis or cash). Thus, a significant portion of our ownership is not trading in the public markets.

ABP Trust may sell any or all of their Class A Common Shares at any time without approval by other shareholders of RMR Inc. Speculation by the press, stock analysts, our shareholders or others regarding the intention of ABP Trust to dispose of Class A Common Shares could adversely affect the market price of our Class A Common Shares. Moreover, the market price of our Class A Common Shares may be adversely impacted by the fact that a significant amount of our outstanding shares are not included in the public float of our Class A Common Shares and by our dual-stock structure. Accordingly, our Class A Common Shares may be worth less than they would be if the Class A Common Shares that ABP Trust controls or has a right to acquire were trading in the public markets.

We and our Client Companies are party to transactions with related parties that may increase the risk of allegations of conflicts of interest, and such allegations may impair our or our Client Companies' ability to realize the benefits we expect from these transactions.

We and our Client Companies are party to transactions with related parties, including with entities controlled by Adam D. Portnoy and entities that we manage. For example, because of the relationships among us, Adam D. Portnoy, Barry M. Portnoy, before his death, and our Client Companies, the agreements we are party to with them, including our management agreements, are among related parties. Other examples include: the general partner of the Open End Fund is a subsidiary controlled by ABP Trust and ABP Trust and RMR LLC are the limited partners of the Open End Fund; SVC is TA's principal landlord, and TA is SVC's largest tenant, operating travel center locations owned by SVC pursuant to long term leases; SNH is Five Star's principal landlord and Five Star is SNH's largest tenant and manager of senior living communities, operating senior living communities owned by SNH pursuant to long term agreements, and SNH and Five Star have agreed to restructure their business arrangements so that all senior living communities owned by SNH that Five Star operates will be operated by Five Star pursuant to long term management agreements and Five Star will issue shares of its common stock to SNH and SNH's shareholders such that, after giving effect to those issuances, SNH will own approximately 34% of Five Star's outstanding common stock and SNH shareholders will receive shares representing approximately 51% of Five Star's outstanding common stock; and Sonesta manages a number of SVC's hotels pursuant to long term management agreements. Our and our Client Companies' agreements with related parties or in respect of transactions among related parties may not be on terms as favorable to us as they would have been if they had been negotiated among unrelated parties. Moreover, we are subject to the risk that our shareholders or the shareholders of one or more of our Client Companies may challenge any such related party transactions and the agreements entered into as part of them. If such a challenge were to be successful, we or our Client Companies might not realize the benefits expected from the transactions being challenged. Moreover, any such challenge could result in substantial costs and a diversion of our management's attention, could have a material adverse effect on our or our Client Companies' reputation, business and growth and could adversely affect our or our Client Companies' ability to realize the benefits expected from the transactions, whether or not the allegations have merit or are substantiated.

Our management responsibilities to each of our Client Companies and any future companies we may manage may give rise to actual, potential or perceived conflicts of interest.

Some of our Client Companies have overlapping investment objectives. Additionally, some of our Client Companies have material business relationships with, and in some instances have entered into material transactions with, other of our Client Companies that could give rise to conflicting interests. Our controlling shareholder's investment in some of our Client Companies also could give rise to conflicting interests. Our Client Companies rely on information and management services we provide to them. While we and our Client Companies have policies and procedures in place that are intended to mitigate the risks of conflicts of interest, our allocation of investment

opportunities and cost reimbursements, advice, recommendations and commitments of our management team across our Client Companies might be perceived to favor one Client Company at the expense of another.

In addition to serving on our Board of Directors and executive team, Adam D. Portnoy also serves on the boards of each of the Managed REITs, Managed Operators, RIF, AIC, ABP Trust, as the chair of the boards of the Managed Equity REITs, Five Star and TA, and as the general partner of the Open End Fund. Other of our officers also serve as officers or on the boards of the Managed REITs, Managed Operators, RIF and the general partner of the Open End Fund. These individuals may also hold equity positions in, or other positions with, us and these Client Companies. In addition, several of the independent trustees and independent directors of our public Client Companies also serve as independent trustees or independent directors of other public Client Companies. Some of our Client Companies have participated in a combined insurance program through AIC and we and the Managed REITs, Five Star and TA participate in a combined directors and officers insurance program. These multiple responsibilities and varying interests could create competition for the time and efforts of Adam D. Portnoy and RMR LLC and its subsidiaries and their officers and employees, and actual, potential or perceived conflicts of interest may arise.

Shareholder litigation, dissident shareholder director nominations and dissident shareholder proposals have often been instituted against companies alleging conflicts of interest in business dealings with affiliated and related persons and entities. Our relationships with Adam D. Portnoy and our Client Companies, the position of our Managing Directors and executive officers as directors, trustees or executive officers of our Client Companies, the position of independent trustees and independent directors of our public Client Companies as independent trustees or independent directors of other public Client Companies and the relationships among our Client Companies may precipitate such activities. In addition, certain proxy advisory firms which have significant influence over the voting by shareholders of public companies, have, in the past, recommended that shareholders vote against, or withhold votes for, the election of all board members up for election at our Client Companies. At past 2017 and 2018 annual shareholder meetings of SVC and SNH and at the 2019 annual shareholder meeting of ILPT, less than a majority of the votes cast were in favor of the election of at least one of the board members standing for election. Proxy advisory firms may recommend that shareholders of our public Client Companies vote against, or withhold votes for, the election of board members of such Client Companies at future annual shareholder meetings, which may affect the outcome of those elections and impact the governance of those Client Companies, which may increase the risk of shareholder activism and litigation at those Client Companies. These activities could result in substantial costs and diversion of our management's attention and could have a material adverse effect on our reputation and business.

Risks Related to Our Organization and Structure

We are a “controlled company” within the meaning of the Nasdaq listing rules and, as a result, qualify for, and intend to rely on, exemptions from certain corporate governance requirements. Our shareholders will not have the same protections afforded to shareholders of companies that are subject to such requirements.

Adam D. Portnoy, as sole trustee of ABP Trust, holds more than 50.0% of the voting power of our shares eligible to vote. As a result, we are a “controlled company” under the Nasdaq listing rules. Under these rules, a company of which more than 50.0% of the voting power in the election of directors is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain listed company governance requirements, including the requirements that the board of directors be majority comprised of independent directors and that we have a compensation committee and a nominating and corporate governance committee composed entirely of independent directors. These exemptions do not modify the independence requirements for our

audit committee, and we intend to continue to comply with the applicable requirements of the SEC and Nasdaq with respect to our audit committee. Nonetheless, the fact that we intend to avail ourselves of some or all of these exceptions may cause our Class A Common Shares to trade at a lower price than if these protections were provided.

Our rights and the rights of our shareholders to take action against our directors and officers are limited.

Our governing documents limit the liability of our directors and officers to us and our shareholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our directors and officers will not have any liability to us and our shareholders for money damages other than liability resulting from:

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

Additionally, our governing documents require us to indemnify, to the maximum extent permitted by Maryland law, any of our present or former directors or executive officers who is made or threatened to be made a party to a proceeding by reason of his or her service in that capacity. We also entered into separate agreements with our directors and executive officers providing for indemnification and advancement of expenses in addition to any rights such person may have under our governing documents.

As a result of these limitations on liability and indemnification obligations, we and our shareholders may have more limited rights against our present and former directors and officers than might exist with other companies, which could limit shareholder recourse in the event of actions which some shareholders may believe are not in our best interest.

Our bylaws designate the Circuit Court for Baltimore City, Maryland or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, as the sole and exclusive forum for certain actions and proceedings that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, manager, agents or employees.

Our bylaws currently provide that, unless the dispute has been referred to binding arbitration, the Circuit Court for Baltimore City, Maryland or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for: (1) any derivative action or proceeding brought on our behalf; (2) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, agent or employee of ours to us or our shareholders; (3) any action asserting a claim against us or any director, officer, agent or employee of ours arising pursuant to Maryland law or our charter or bylaws brought by or on behalf of a shareholder either on such shareholder's own behalf, on our behalf or on behalf of any series or class of our shareholders or shareholders against us or any of our directors, officers, agents or employees, including any claims relating to the meaning, interpretation, effect, validity, performance or enforcement of our charter or bylaws; or (4) any action asserting a claim against us or any director, officer, agent or employee of ours that is governed by the internal affairs doctrine of the State of Maryland. The exclusive forum provision of our bylaws does not apply to any dispute that has been referred to binding arbitration in accordance with our bylaws. The exclusive forum provision of our bylaws does not establish exclusive jurisdiction in the Circuit Court for Baltimore City, Maryland for claims that arise under the Securities Act, the Exchange Act or other federal securities laws if there is exclusive or concurrent jurisdiction in the federal courts. Any person or entity purchasing or otherwise acquiring or holding any interest in our shares of beneficial interest

shall be deemed to have notice of and to have consented to these provisions of our bylaws, as they may be amended from time to time. The arbitration and exclusive forum provisions of our bylaws may limit a shareholder's ability to bring a claim in a judicial forum that the shareholder believes is favorable for disputes with us or our directors, officers, employees or agents, which may discourage lawsuits against us and our directors, officers, employees or agents.

Shareholder litigation against us or our directors, officers, employees or other agents may be referred to mandatory arbitration proceedings, which follow different procedures than in-court litigation and may be more restrictive to shareholders asserting claims than in-court litigation.

Our shareholders agree, by virtue of becoming shareholders, that they are bound by our governing documents, including the arbitration provisions of our bylaws, as they may be amended from time to time. Our bylaws provide that certain actions by one or more of our shareholders against us or any of our directors, officers, employees or other agents will be referred to mandatory, binding and final arbitration proceedings if we, or any other party to such dispute, including any of our directors, officers, employees or other agents, unilaterally so demands. As a result, we and our shareholders would not be able to pursue litigation in state or federal court against us or our directors, officers, employees or other agents, including, for example, claims alleging violations of federal securities laws or breach of fiduciary duties or similar director or officer duties under Maryland Law, if we or any of our directors, officers, employees, agents or other parties against whom the claim is made unilaterally demands the matter be resolved by arbitration. Instead, our shareholders would be required to pursue such claims through binding and final arbitration.

Our bylaws provide that such arbitration proceedings would be conducted in accordance with the procedures of the Commercial Arbitration Rules of the American Arbitration Association, as modified in our Bylaws. These procedures may provide materially more limited rights to our shareholders than litigation in a federal or state court. For example, arbitration in accordance with these procedures does not include the opportunity for a jury trial, document discovery is limited, arbitration hearings generally are not open to the public, there are no witness depositions in advance of arbitration hearings and arbitrators may have different qualifications or experiences than judges. In addition, although our bylaws' arbitration provisions contemplate that arbitration may be brought in a representative capacity or on behalf of a class of our shareholders, the rules governing such representation or class arbitration may be different from, and less favorable to shareholders than, the rules governing representative or class action litigation in courts. Our bylaws also generally provide that each party to such an arbitration is required to bear its own costs in the arbitration, including attorneys' fees, and that the arbitrators may not render an award that includes shifting of such costs or, in a derivative or class proceeding, award any portion of our award to any shareholder or such shareholder's attorneys. The arbitration provisions of our bylaws may discourage our shareholders from bringing, and attorneys from agreeing to represent our shareholders wishing to bring, litigation against us or our directors, officers, employees, manager or other agents. A number of our contracts with Adam D. Portnoy, ABP Trust and our Client Companies have similar arbitration provisions to those in our bylaws.

We believe that the arbitration provisions in our bylaws are enforceable under both state and federal law, including with respect to federal securities laws claims. We are a Maryland corporation and Maryland courts have upheld the enforceability of arbitration bylaws. In addition, the United States Supreme Court has repeatedly upheld agreements to arbitrate other federal statutory claims, including those that implicate important federal policies. However, some academics, legal practitioners and others are of the view that charter or bylaw provisions mandating arbitration are not enforceable with respect to federal securities laws claims. It is possible that the arbitration provisions of our bylaws may ultimately be determined to be unenforceable.

By agreeing to the arbitration provisions of our bylaws, shareholders will not be deemed to have waived compliance by us with federal securities laws and the rules and regulations thereunder.

RMR Inc. is required to pay ABP Trust for certain tax benefits it claims as a result of the tax basis step up we receive as part of the RMR LLC reorganization on June 5, 2015 and future redemptions by ABP Trust for Class A Common Shares or for cash. In certain circumstances, payments under the Tax Receivable Agreement may be accelerated and/or significantly exceed the actual tax benefits RMR Inc. realizes.

ABP Trust may redeem Class A Units it owns for Class A Common Shares or cash. See “Business-Our Organizational Structure-The RMR LLC Operating Agreement-Redemption rights of holders of Class A Units.” Both ABP Trust’s initial purchase of Class A Units and any future redemptions that ABP Trust may affect may result in increases in our tax basis of our assets that otherwise would not have been available. Such increases in tax basis are likely to increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of income tax we otherwise would be required to pay in the future. These increases in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent the increased tax basis is allocated to those assets. The IRS may challenge all or part of these tax basis increases, and a court might sustain such a challenge.

We have entered into the Tax Receivable Agreement with ABP Trust that provides for the payment by RMR Inc. to ABP Trust of 85.0% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that RMR Inc. actually realizes as a result of (a) the increases in tax basis attributable to its dealings with ABP Trust and (b) tax benefits related to imputed interest deemed to be paid by us as a result of the Tax Receivable Agreement. See “Business-Our Organizational Structure-Tax Receivable Agreement.” While the actual increase in tax basis, as well as the amount and timing of any payments under the Tax Receivable Agreement, will vary depending upon a number of factors, including the timing of redemptions, the price of our Class A Common Shares at the time of the redemption, the extent to which such redemptions are taxable, and the amount and timing of our income, we expect that, as a result of the size of the increases in the tax basis of the tangible and intangible assets of RMR LLC attributable to RMR Inc.’s interests in RMR LLC, during the expected term of the Tax Receivable Agreement, the payments that RMR Inc. makes to ABP Trust may be substantial.

ABP Trust generally will not reimburse RMR Inc. for any payments that may have been made under the Tax Receivable Agreement. As a result, in certain circumstances RMR Inc. could make payments to ABP Trust under the Tax Receivable Agreement in excess of cash tax savings. Our ability to achieve benefits from any tax basis increase, and the payments to be made under the Tax Receivable Agreement, will depend upon a number of factors, including the timing and amount of our future income.

In addition, the Tax Receivable Agreement provides that, upon certain changes of control and certain breaches of the agreement that we fail to cure in accordance with the terms of the agreement, our obligations with respect to Class A Units will be accelerated. In those circumstances, our obligations under the Tax Receivable Agreement would be based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits described in the Tax Receivable Agreement, and that any Class A Units that have not been redeemed will be deemed redeemed for the market value of the Class A Common Shares at the time of the change of control or breach, as applicable. Consequently, it is possible, in these circumstances, that the actual cash tax savings realized by RMR Inc. may be significantly less than the corresponding Tax Receivable Agreement payments.

Our governing documents permit our directors and officers, our Client Companies and ABP Trust to retain corporate opportunities for their own benefit.

Under RMR Inc.'s governing documents and RMR LLC's operating agreement, no director or officer of ours who is also serving as an officer, employee or agent of a Client Company or ABP Trust or any of its affiliates is required to present, communicate or offer any business opportunity to us, and such person shall have the right to hold any business opportunity for themselves or transfer it to any other person to the maximum extent permitted by Maryland law. If any of these persons fails to present an opportunity to us or takes the opportunity for themselves, to the maximum extent permitted under Maryland law they will not be liable to us. We have renounced all potential interest or expectation in certain business opportunities which may fit our growth objectives in the future or otherwise have value to us. These opportunities may be directed to the Client Companies or other persons or entities to which RMR LLC may have a relationship. Additionally, under our governing documents, our directors, officers, employees and agents are permitted to engage in other business activities that are similar to, or even competitive with, our own. If such persons engage in competitive business activities, we may have no remedy under our governing documents in these circumstances.

Our governing documents do not limit our ability to enter into new lines of businesses and doing so may result in additional risks and uncertainties in our businesses.

Our governing documents do not limit our business to the management of commercial real estate assets or businesses related thereto. Accordingly, we may pursue other business initiatives. To the extent we enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with: (i) the required investment of capital and other resources; (ii) the possibility that we have insufficient expertise to engage in such activities competently or profitably; (iii) combining or integrating operational and management systems and controls; and (iv) the broadening of our geographic footprint, including the risks associated with conducting operations in non-U.S. jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. Our strategic initiatives may include joint ventures or partnerships, in which case we will be subject to additional risks and uncertainties because we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

Our only material asset is our interest in RMR LLC, and we are accordingly dependent upon distributions from RMR LLC to pay our taxes and expenses.

RMR Inc. is organized as a holding company of RMR LLC and its only material asset is its limited liability company membership units of RMR LLC. RMR Inc. has no independent means of generating revenue. Pursuant to RMR Inc.'s agreements with RMR LLC, RMR Inc., as the managing member of RMR LLC, intends to cause RMR LLC to make distributions in an amount that is at least sufficient to cover applicable taxes payable by its members, other expenses and some or all of the dividends, if any, declared by us.

Deterioration in the financial condition, earnings or cash flow of RMR LLC for any reason could limit or impair its ability to pay such distributions to us. Additionally, to the extent that RMR Inc. requires funds and RMR LLC is restricted from making such distributions under applicable law or regulation or under the terms of financing or other arrangements, or is otherwise unable to provide such funds, our liquidity and financial condition could be materially adversely affected.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices are located at Two Newton Place, 255 Washington Street, Newton, MA 02458-1634. These offices are leased from an affiliate of ABP Trust through 2030. A copy of the lease is incorporated by reference as an exhibit to this Annual Report on Form 10-K.

We also lease other ancillary and local office space from ABP Trust, from certain Managed Equity REITs and from third parties. We consider these leased premises suitable and adequate for our business. For more information about our leased facilities, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations” and Note 11, *Commitments*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings

From time to time, we may become involved in litigation matters incidental to the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, we are currently not a party to any litigation which we expect to have a material adverse effect on our business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our Class A Common Shares are traded on Nasdaq (symbol: RMR). There is no publicly traded market for our Class B-1 Common Shares or our Class B-2 Common Shares, all of which are held by ABP Trust.

Issuer purchases of equity securities.

The following table provides information about our purchases of our equity securities during the quarter ended September 30, 2019:

<u>Calendar Month</u>	<u>Number of Shares Purchased(1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
July 2019	3,148	\$49.36	N/A	N/A
September 2019	11,545	\$44.60	N/A	N/A
Total	<u>14,693</u>	<u>\$45.62</u>	<u>N/A</u>	<u>N/A</u>

(1) These Class A Common Share withholdings and purchases were made to satisfy tax withholding and payment obligations of our current and former officers and other RMR LLC employees in connection with the vesting of awards of our Class A Common Shares. We withheld and purchased these shares at their fair market value based upon the trading price of our Class A Common Shares at the close of trading on Nasdaq on the purchase dates.

Item 6. Selected Financial Data

The following tables set forth selected financial data for the periods and dates indicated. This data should be read in conjunction with, and is qualified in its entirety by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and accompanying Notes included in Part IV, Item 15 of this Annual Report on Form 10-K. The selected historical consolidated financial information and other data includes the accounts of RMR Inc. or its predecessors.

The selected historical consolidated financial information as of September 30, 2019 and 2018 and for each of the three years in the period ended September 30, 2019 has been derived from the Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. We derived the selected historical financial data as of and for the years ended September 30, 2016 and 2015 from our audited consolidated financial statements which are not included in this Annual Report on Form 10-K.

The selected historical consolidated financial information below does not reflect what our results of operations and financial position would have been if we had operated as a single publicly owned company during the periods prior to June 5, 2015. In addition, this historical information should not

be relied upon as an indicator of future performance. Amounts are in thousands, except per share data.

	Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Operating and other information:					
Revenues:					
Management services	\$178,075	\$191,594	\$174,887	\$164,397	\$162,326
Incentive business management fees	120,094	155,881	52,407	62,263	—
Advisory services	3,169	4,352	4,102	2,620	2,380
Total management and advisory services revenues	301,338	351,827	231,396	229,280	164,706
Reimbursable compensation and benefits	57,490	53,152	40,332	37,660	28,230
Other client company reimbursable expenses(1)	354,540	—	—	—	—
Total reimbursable costs	412,030	53,152	40,332	37,660	28,230
Total revenues	713,368	404,979	271,728	266,940	192,936
Expenses:					
Compensation and benefits	114,529	108,763	92,625	83,419	77,526
Equity based compensation	9,040	10,423	7,128	8,566	5,930
Separation costs	7,050	3,730	—	1,358	116
Total compensation and benefits expense	130,619	122,916	99,753	93,343	83,572
General and administrative	28,706	27,149	25,189	23,163	21,081
Other client company reimbursable expenses(1)	354,540	—	—	—	—
Transaction and acquisition related costs	698	1,697	9,187	1,966	5,454
Depreciation and amortization	1,017	1,248	2,038	1,768	2,117
Total expenses	515,580	153,010	136,167	120,240	112,224
Operating income	197,788	251,969	135,561	146,700	80,712
Interest and other income	8,770	4,546	1,565	234	1,732
Tax receivable agreement remeasurement	—	24,710	—	—	—
Impairment loss on Tremont Mortgage Trust investment	(6,213)	(4,359)	—	—	—
Equity in earnings (losses) of investees	719	(578)	(206)	—	115
Unrealized loss on equity method investments accounted for under the fair value option	(4,700)	—	—	—	(290)
Income before income tax expense	196,364	276,288	136,920	146,934	82,269
Income tax expense	(27,320)	(58,862)	(28,251)	(24,573)	(4,848)
Net income	169,044	217,426	108,669	122,361	77,421
Net income attributable to noncontrolling interest	(94,464)	(121,385)	(66,376)	(85,121)	(70,118)
Net income attributable to The RMR Group Inc.	\$ 74,580	\$ 96,041	\$ 42,293	\$ 37,240	\$ 7,303
Weighted average common shares outstanding—basic	16,132	16,077	16,032	16,005	16,000
Weighted average common shares outstanding—diluted	16,143	16,120	16,048	16,005	16,000
Net income attributable to The RMR Group Inc. per common share—basic	\$ 4.59	\$ 5.94	\$ 2.63	\$ 2.33	\$ 0.46
Net income attributable to The RMR Group Inc. per common share—diluted	\$ 4.59	\$ 5.92	\$ 2.63	\$ 2.33	\$ 0.46
Cash distributions declared per common share	\$ 1.40	\$ 1.00	\$ 1.00	\$ 1.08	\$ —

	As of September 30,				
	2019	2018	2017	2016	2015
Operating and other information:					
Total assets	\$667,872	\$504,428	\$383,719	\$337,531	\$303,892
Total liabilities	\$138,837	\$ 69,767	\$ 94,056	\$ 91,140	\$ 90,240
Total equity	\$529,035	\$434,661	\$289,663	\$246,391	\$213,652

	As of or For the Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Operating and other information (unaudited):					
Assets under management(2)	\$32,802,834	\$30,099,464	\$28,469,147	\$26,858,438	\$25,539,125
Adjusted EBITDA(3)	\$ 108,392	\$ 120,324	\$ 107,217	\$ 100,112	\$ 92,291

- (1) Effective October 1, 2018, we adopted new accounting guidance that required us to account for the cost of services provided by third parties to our Client Companies, and the related reimbursement revenue, on a gross basis. As a result, our consolidated statement of comprehensive income for the fiscal year ended September 30, 2019 reflects corresponding increases in revenue and expense of \$354,540, in other client company reimbursable expenses, compared to the prior years, with no impact to net income. For further information about these reimbursements, see Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.
- (2) In addition to presenting a calculation of assets under management of the Managed Equity REITs according to the method used to determine fees pursuant to the terms of the business management agreements as presented in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Annual Report on Form 10-K, we have determined to also present total assets under management for all of our Client Companies in a manner that we believe more clearly reflects the size of our business. The calculation of our assets under management for all of our Client Companies as of the dates indicated primarily includes: (i) the gross book value of real estate and related assets, excluding depreciation, amortization, impairment charges or other non-cash reserves, of the Managed Equity REITs and ABP Trust, plus (ii) the gross book value of real estate assets, property and equipment of the Managed Operators, excluding depreciation, amortization, impairment charges or other non-cash reserves, plus (iii) the fair value of investments of AIC and the Open End Fund, the managed assets of RIF and the equity of TRMT. This calculation of total assets under management may include amounts in respect of the Managed Equity REITs that are higher than the calculations of assets under management used for purposes of calculating fees under the terms of the business management agreements, which are based, in part, upon the lesser of historical cost of real estate assets or total market capitalization, determined monthly.
- (3) EBITDA and Adjusted EBITDA are non-GAAP financial measures calculated as presented in the table below. We consider EBITDA and Adjusted EBITDA to be appropriate supplemental measures of our operating performance, along with net income, net income attributable to The RMR Group Inc. and operating income. We believe that EBITDA and Adjusted EBITDA provide useful information to investors because by excluding the effects of certain amounts, such as those outlined in the table below, EBITDA and Adjusted EBITDA may facilitate a comparison of current operating performance with our historical operating performance and with the performance of other asset management businesses. EBITDA and Adjusted EBITDA do not represent cash generated by operating activities in accordance with GAAP and should not be considered as alternatives to net income, net income attributable to The RMR Group Inc. or

operating income as an indicator of our financial performance or as a measure of our liquidity. These measures should be considered in conjunction with net income, net income attributable to The RMR Group Inc. and operating income as presented in our consolidated statements of comprehensive income. Also, other asset management businesses may calculate EBITDA and Adjusted EBITDA differently than we do. The following table is a reconciliation of net income to EBITDA and Adjusted EBITDA:

	Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Net income	\$ 169,044	\$ 217,426	\$108,669	\$122,361	\$77,421
Plus: income tax expense	27,320	58,862	28,251	24,573	4,848
Plus: depreciation and amortization	1,017	1,248	2,038	1,768	2,117
EBITDA	197,381	277,536	138,958	148,702	84,386
Plus: other asset amortization . . .	9,416	9,416	9,416	9,416	2,999
Plus: operating expenses paid in The RMR Group Inc.'s common shares	3,363	3,865	1,970	933	—
Plus: separation costs	7,050	3,730	—	1,358	116
Plus: transaction and acquisition related costs	698	1,697	9,187	1,966	5,454
Plus: unrealized loss on equity method investments accounted for under the fair value option .	4,700	—	—	—	290
Plus: business email compromise fraud costs	—	225	774	—	—
Plus: impairment loss on Tremont Mortgage Trust investment . . .	6,213	4,359	—	—	—
Less: tax receivable agreement remeasurement due to the Tax Cuts and Jobs Act	—	(24,710)	—	—	—
Less: incentive business management fees earned	(120,094)	(155,881)	(52,407)	(62,263)	—
Certain other net adjustments . . .	(335)	87	(681)	—	(954)
Adjusted EBITDA	<u>\$ 108,392</u>	<u>\$ 120,324</u>	<u>\$107,217</u>	<u>\$100,112</u>	<u>\$92,291</u>

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

The following information should be read in conjunction with our Consolidated Financial Statements and accompanying Notes included in Part IV, Item 15 of this Annual Report on Form 10-K.

OVERVIEW (dollars in thousands)

RMR Inc. is a holding company and substantially all of its business is conducted by RMR LLC. RMR Inc. has no employees, and the personnel and various services it requires to operate are provided by RMR LLC. As of September 30, 2019, RMR LLC managed over 2,200 properties in 48 states, Washington, D.C., Puerto Rico and Canada that are principally owned by the Managed Equity REITs.

RMR LLC manages a diverse portfolio of publicly owned real estate and real estate related businesses. Our Client Companies include the Managed Equity REITs, the Managed Operators, RIF, TRMT, AIC, ABP Trust, the Open End Fund and the clients of the Tremont business, each of which are discussed in further detail below.

Managed Equity REITs

The base business management fees we earn from the Managed Equity REITs are principally based upon the lower of (i) the average historical cost of each REIT’s properties and (ii) each REIT’s average market capitalization. The property management fees we earn from the Managed Equity REITs are principally based upon the gross rents collected at certain managed properties owned by the REITs, excluding rents or other revenues from hotels, travel centers, senior living properties and wellness centers which are separately managed by one of our Managed Operators or a third party. The following table presents for each Managed Equity REIT a summary of its primary strategy and the lesser of the historical cost of its assets under management and its market capitalization as of September 30, 2019, 2018 and 2017, as applicable:

REIT	Primary Strategy	Lesser of Historical Cost of Assets Under Management or Total Market Capitalization as of September 30,		
		2019	2018	2017
ILPT . . .	Industrial and logistics properties	\$ 2,530,811	\$ 1,547,219	\$ —
OPI(1) . . .	Office properties primarily leased to single tenants, including the government	4,074,202	3,277,442	2,221,945
SIR(1) . . .	Office properties primarily leased to single tenants	—	3,445,824	4,575,215
SNH . . .	Senior living, medical office and life science properties	5,889,907	7,915,213	8,233,984
SVC . . .	Hotels and net lease service and necessity-based retail properties	10,784,131	8,935,518	8,740,307
		<u>\$23,279,051</u>	<u>\$25,121,216</u>	<u>\$23,771,451</u>

(1) SIR merged with and into OPI on December 31, 2018 with OPI continuing as the surviving entity.

Base business management fees payable to us by the Managed Equity REITs are calculated monthly based upon the lesser of the average historical cost of each Managed Equity REIT’s assets under management or its average market capitalization, as calculated in accordance with the applicable business management agreement. A Managed Equity REIT’s historical cost of assets under management includes the real estate it owns and its consolidated assets invested directly or indirectly in equity interests in or loans secured by real estate and personal property owned in connection with such real estate (including acquisition related costs which may be allocated to intangibles or are unallocated), all before reserves for depreciation, amortization, impairment charges or bad debts or

other similar non-cash reserves. A Managed Equity REIT's historical cost of assets under management does not include the cost of shares it owns of another Client Company. A Managed Equity REIT's average market capitalization includes the average value of the Managed Equity REIT's outstanding common equity value during the period, plus the daily weighted average of each of the aggregate liquidation preference of preferred shares and the principal amount of consolidated indebtedness during the period. The table above presents for each Managed Equity REIT, the lesser of the historical cost of its assets under management and its market capitalization as of the end of each period. The basis on which our base business management fees are calculated for the fiscal years ended September 30, 2019, 2018 and 2017 may differ from the basis at the end of the periods presented in the table above. As of September 30, 2019, the market capitalization was lower than the historical costs of assets under management for OPI, SNH and SVC; the historical costs of assets under management for OPI, SNH and SVC as of September 30, 2019, were \$6,114,931, \$8,670,173 and \$12,787,009, respectively. For ILPT, the historical costs of assets under management were lower than its market capitalization of \$2,790,848, calculated as of September 30, 2019.

The fee revenues we earned from the Managed Equity REITs for the fiscal years ended September 30, 2019, 2018 and 2017 are set forth in the following tables:

Fiscal Year Ended September 30, 2019(1)				
REIT	Base Business Management Revenues	Incentive Business Management Revenues	Property Management Revenues	Total
ILPT	\$ 10,893	\$ —	\$ 6,720	\$ 17,613
OPI(2)	18,906	—	20,479	39,385
SIR(2)	4,124	25,817	2,335	32,276
SNH	29,972	40,642	13,407	84,021
SVC	39,905	53,635	218	93,758
	<u>\$103,800</u>	<u>\$120,094</u>	<u>\$43,159</u>	<u>\$267,053</u>

Fiscal Year Ended September 30, 2018(1)				
REIT	Base Business Management Revenues	Incentive Business Management Revenues	Property Management Revenues	Total
ILPT	\$ 5,402	\$ —	\$ 3,327	\$ 8,729
OPI(2)	17,619	—	15,084	32,703
SIR(2)	18,597	25,569	10,406	54,572
SNH	37,699	55,740	11,843	105,282
SVC	41,131	74,572	54	115,757
	<u>\$120,448</u>	<u>\$155,881</u>	<u>\$40,714</u>	<u>\$317,043</u>

Fiscal Year Ended September 30, 2017(1)

REIT	Base Business Management Revenues	Incentive Business Management Revenues	Property Management Revenues	Total
OPI(2)	\$ 11,190	\$ —	\$ 9,756	\$ 20,946
SIR(2)	22,613	—	13,066	35,679
SNH	39,061	—	10,573	49,634
SVC	40,513	52,407	52	92,972
	<u>\$113,377</u>	<u>\$52,407</u>	<u>\$33,447</u>	<u>\$199,231</u>

- (1) Excludes reimbursable compensation and benefits and other client company reimbursable expenses.
- (2) SIR merged with and into OPI on December 31, 2018 with OPI continuing as the surviving entity.

Managed Operators, ABP Trust, AIC and the Open End Fund

We provide business management services to the Managed Operators. Five Star operates senior living communities throughout the United States, many of which are owned by and leased from, or managed for, SNH. Sonesta manages and franchises hotels, resorts and cruise ships in the United States, Latin America, the Caribbean and the Middle East; many of Sonesta's U.S. hotels are owned by SVC. TA operates, leases and franchises travel centers along the U.S. interstate highway system, many of which are owned by SVC, and owns, operates and franchises standalone truck service facilities and restaurants. Generally, our fees earned from business management services to the Managed Operators are based on a percentage of certain revenues.

In addition, we provide management services to ABP Trust, AIC and the Open End Fund. The fees we earn from ABP Trust include business management fees based on a percentage of revenues, property management fees based on rents collected from managed properties and construction management fees based on the cost of construction activities. The fees we earn from AIC were based on a percentage of total premiums paid for insurance arranged by AIC. AIC's property insurance program expired on June 30, 2019 and was not continued. As a result, AIC has not incurred any management fees payable to RMR LLC since that date. AIC is in the process of dissolving. The fees we earn from the Open End Fund include administrative service fees based on a percentage of the Open End Fund's net asset value, property management fees based on rents collected from managed properties and construction management fees based on the cost of construction activities.

Our revenues from services to the Managed Operators, ABP Trust, AIC and the Open End Fund for the fiscal years ended September 30, 2019, 2018 and 2017 are set forth in the following table:

<u>Company</u>	<u>Year Ended September 30,(1)</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
ABP Trust	\$ 948	\$ 1,930	\$ 1,513
AIC	180	240	240
Five Star	9,473	9,513	9,308
Open End Fund	3,384	258	—
Sonesta	2,908	2,632	2,257
TA	13,706	14,804	14,313
	<u>\$30,599</u>	<u>\$29,377</u>	<u>\$27,631</u>

(1) Excludes reimbursable client company operating expenses and reimbursable compensation and benefits.

RMR Advisors, Tremont Advisors and the Tremont Business

RMR Advisors is compensated pursuant to its agreement with RIF at an annual rate of 0.85% of RIF’s average daily managed assets, as defined in the agreement. The value of RIF’s assets, as defined by the investment advisory agreement, managed by RMR Advisors was \$362,043, \$336,205 and \$316,890 at September 30, 2019, 2018 and 2017, respectively. The advisory fees earned by RMR Advisors included in our revenue were \$3,013, \$2,888 and \$2,451 for the fiscal years ended September 30, 2019, 2018 and 2017, respectively.

Tremont Advisors primarily manages TRMT, a publicly traded mortgage REIT that focuses primarily on originating and investing in first mortgage whole loans secured by middle market and transitional commercial real estate. In June 2018, Tremont Advisors agreed to waive any business management fees otherwise due and payable by TRMT pursuant to the management agreement for the period beginning July 1, 2018 until June 30, 2020 and any incentive management fee that it may earn for the 2018 or 2019 calendar years. Tremont Advisors earned advisory services revenue of \$156, \$1,464 and \$1,651 for the fiscal years ended September 30, 2019, 2018 and 2017, respectively.

The Tremont business acts as a transaction originator for non-investment advisory clients for negotiated fees. The Tremont business earned fees for such origination services of \$194, \$1,055 and \$432 for the fiscal years ended September 30, 2019, 2018 and 2017, respectively, which amounts are included in management services revenue in our consolidated statements of comprehensive income.

Business Environment and Outlook

The continuation and growth of our business depends upon our ability to operate the Managed REITs so as to maintain and increase the value of their businesses, to assist our Managed Operators to grow their businesses and operate profitably and to successfully execute on new business ventures and investments we may pursue. Our business and the businesses of our Client Companies generally follow the business cycle of the U.S. real estate industry, but with certain property type and regional geographic variations. Typically, as the general U.S. economy expands, commercial real estate occupancies increase and new real estate development occurs; new development frequently leads to increased real estate supply and reduced occupancies; and then the cycle repeats. These general trends can be impacted by property type characteristics or regional factors; for example, demographic factors such as the aging U.S. population, the growth of e-commerce retail sales or net in migration or out migration in different geographic regions can slow, accelerate, overwhelm or otherwise impact general cyclical trends. Because of such multiple factors, we believe it is often possible to grow real

estate based businesses in selected property types or geographic areas despite general national trends. We also believe that these regional or special factors can be reinforced or sometimes overwhelmed by general economic factors; for example, the expectation that U.S. interest rates will increase, or decrease, may cause a general decrease, or increase, in the value of securities of real estate businesses or in their value relative to other types of securities and investments, including those real estate businesses that use large amounts of debt and that attract equity investors by paying dividends such as REITs. We try to take account of industry and general economic factors as well as specific property and regional geographic considerations when providing services to our Client Companies.

At present we believe that the current interest rate environment available for real estate purchase financing, as well as the increased levels of available private capital allocated to real estate investments, may be causing real estate valuations to generally exceed replacement cost for certain types of properties (e.g., industrial and residential) and in certain markets (e.g., urban areas). Conversely, for other types of properties (e.g., retail and office) and in certain markets (e.g., suburban areas), we believe real estate valuations are generally below replacement cost. Because of this market dynamic, we believe property acquisitions and dispositions should be undertaken on a careful basis. We also believe that because of the diversity of properties which our Client Companies own and operate there should be opportunities for growth in selected property types and locations and that we and our Client Companies should maintain financial flexibility using only reasonable amounts of debt so as to take advantage of growth opportunities which come to our and their attention. We, on behalf of our Client Companies and ourselves, attempt to take advantage of opportunities in the real estate market when they arise. For example: (i) on January 17, 2018, SIR launched an equity REIT, ILPT, that it formed to focus on the ownership and leasing of industrial and logistics properties throughout the U.S.; (ii) on December 31, 2018, GOV and SIR merged to form OPI, a REIT with a broader investment strategy than its predecessor companies and ultimately a stronger combined entity that will be better positioned for future growth; and (iii) on September 20, 2019, SVC acquired a net leased portfolio of 767 service oriented retail properties, providing SVC with a greater diversity in tenant base, property type and geography. In addition, we balance our pursuit of growth of our and our Client Companies' businesses by executing, on behalf of our Client Companies, prudent capital recycling or business arrangement restructurings in an attempt to help our Client Companies prudently manage leverage and to reposition their portfolios and businesses when circumstances warrant such changes or when other more desirable opportunities are identified.

Please see elsewhere in this Annual Report on Form 10-K, including "Warning Concerning Forward Looking Statements", Part 1, Item 1 "Business" and Part I, Item 1A "Risk Factors" for a discussion of some of the circumstances that may adversely affect our performance and the performance of our Client Companies.

RESULTS OF OPERATIONS (dollars in thousands)

Fiscal Year Ended September 30, 2019, Compared to the Fiscal Year Ended September 30, 2018

The following table presents the changes in our operating results for the fiscal year ended September 30, 2019 compared to the fiscal year ended September 30, 2018:

	Fiscal Year Ended September 30,			
	2019	2018	\$ Change	% Change
Revenues:				
Management services	\$178,075	\$ 191,594	\$ (13,519)	(7.1)%
Incentive business management fees	120,094	155,881	(35,787)	(23.0)%
Advisory services	3,169	4,352	(1,183)	(27.2)%
Total management and advisory services revenues	301,338	351,827	(50,489)	(14.4)%
Reimbursable compensation and benefits	57,490	53,152	4,338	8.2%
Other client company reimbursable expenses	354,540	—	354,540	n/m
Total reimbursable costs	412,030	53,152	358,878	n/m
Total revenues	713,368	404,979	308,389	76.1%
Expenses:				
Compensation and benefits	114,529	108,763	5,766	5.3%
Equity based compensation	9,040	10,423	(1,383)	(13.3)%
Separation costs	7,050	3,730	3,320	89.0%
Total compensation and benefits expense	130,619	122,916	7,703	6.3%
General and administrative	28,706	27,149	1,557	5.7%
Other client company reimbursable expenses	354,540	—	354,540	n/m
Transaction and acquisition related costs	698	1,697	(999)	(58.9)%
Depreciation and amortization	1,017	1,248	(231)	(18.5)%
Total expenses	515,580	153,010	362,570	n/m
Operating income	197,788	251,969	(54,181)	(21.5)%
Interest and other income	8,770	4,546	4,224	92.9%
Tax receivable agreement remeasurement	—	24,710	(24,710)	n/m
Impairment loss on Tremont Mortgage Trust investment	(6,213)	(4,359)	(1,854)	(42.5)%
Equity in earnings (losses) of investees	719	(578)	1,297	n/m
Unrealized loss on equity method investment accounted for under the fair value option	(4,700)	—	(4,700)	n/m
Income before income tax expense	196,364	276,288	(79,924)	(28.9)%
Income tax expense	(27,320)	(58,862)	31,542	53.6%
Net income	169,044	217,426	(48,382)	(22.3)%
Net income attributable to noncontrolling interest	(94,464)	(121,385)	26,921	22.2%
Net income attributable to The RMR Group Inc.	\$ 74,580	\$ 96,041	\$ (21,461)	(22.3)%

n/m—not meaningful

Management services revenue. For the fiscal years ended September 30, 2019 and 2018, we earned base business and property management services revenue from the following sources:

<u>Source</u>	<u>Fiscal Year Ended September 30,</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Managed Equity REITs	\$146,959	\$161,162	\$(14,203)
Managed Operators	26,087	26,949	(862)
Other	5,029	3,483	1,546
Total	<u>\$178,075</u>	<u>\$191,594</u>	<u>\$(13,519)</u>

Management services revenue decreased \$13,519 primarily due to (i) declines in the market capitalization of OPI (following the GOV/SIR Merger) and SNH resulting in decreases to base business management fees of \$13,186 and \$7,727, respectively, and (ii) decreased property management fees earned from OPI of \$2,676, as compared to GOV's and SIR's combined property management fees in 2018, due primarily to OPI's asset disposition plan. These decreases were partially offset by (i) growth in base business management fees of \$5,491 and property management fees of \$3,393 earned from ILPT, reflecting a full fiscal year of revenue following its initial public offering in January 2018 and recent acquisition activity, and (ii) incremental fees earned from the Open End Fund of \$2,144 since its launch in September 2018.

Incentive business management fees. Incentive business management fees are contingent performance based fees which are recognized in our first fiscal quarter when amounts, if any, for the applicable measurement periods become known and the incentive business management fees are earned. Incentive business management fees for the fiscal year ended September 30, 2019 include fees earned from SIR, SNH and SVC of \$25,817, \$40,642 and \$53,635, respectively, for the calendar year 2018. Incentive business management fees for the fiscal year ended September 30, 2018 include fees earned from SIR, SNH and SVC of \$25,569, \$55,740 and \$74,572, respectively, for the calendar year 2017.

Advisory services revenue. Advisory services revenue includes the fees RMR Advisors earns for managing RIF and the fees Tremont Advisors earns for managing TRMT. Advisory services revenue decreased \$1,183 primarily due to Tremont Advisors waiving management fees otherwise owed by TRMT beginning July 1, 2018.

Reimbursable compensation and benefits. Reimbursable compensation and benefits represents amounts reimbursed to us by the Managed Equity REITs for certain property related employee compensation and benefits expenses incurred in the ordinary course of business in our capacity as property manager, at cost. A significant portion of these reimbursable compensation and benefits costs arise from services we provide that are paid or reimbursed to the Managed Equity REITs by their tenants, as well as non-cash share based compensation from the Managed Equity REITs granted to some of our employees. Reimbursable compensation and benefits for the fiscal years ended September 30, 2019 and 2018 include non-cash share based compensation granted to some of our employees by our Client Companies totaling \$6,461 and \$7,421, respectively. Reimbursable compensation and benefits increased \$4,338 due to annual increases in employee compensation and benefits for which we receive reimbursement and increased property level staffing, partially offset by decreases in share based compensation granted to our employees by our Client Companies due to decreases in the fair value of shares at the vesting date.

Other client company reimbursable expenses. For further information about these reimbursements, see Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Compensation and benefits. Compensation and benefits consist of employee salaries and other employment related costs, including health insurance expenses and contributions related to our employee retirement plan. Compensation and benefits expense increased \$5,766 primarily due to annual employee merit increases on October 1, 2018 and increased staffing levels to support growth at RMR LLC and certain of our Client Companies, partially offset by lower bonus costs in 2019 due to executive retirements.

Equity based compensation. Equity based compensation consists of the value of vested shares granted to certain of our employees under our equity compensation plan and by our Client Companies. Equity based compensation decreased \$1,383 primarily due to declines in our share price and the Managed Equity REITs' share prices.

Separation costs. Separation costs consist of employment termination costs. For further information about these costs, see Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

General and administrative. General and administrative expenses consist of office related expenses, information technology related expenses, employee training, travel, professional services expenses, director compensation and other administrative expenses. General and administrative costs increased \$1,557 primarily due to increases in costs to support our operations and growth strategies, including rent expense, professional fees and recruiting costs.

Other client company reimbursable expenses. For further information about these reimbursements, see Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Transaction and acquisition related costs. Transaction and acquisition related costs decreased \$999 primarily due to costs related to the formation of the Open End Fund in the prior year.

Depreciation and amortization. Depreciation and amortization decreased \$231 primarily as a result of certain intangible assets related to our acquisition of the Tremont business in August 2016 becoming fully amortized.

Interest and other income. Interest and other income increased \$4,224 primarily due to the combination of higher stated interest rates and increased cash balances invested during the fiscal year ended September 30, 2019 as compared to the fiscal year ended September 30, 2018.

Tax receivable agreement remeasurement. The tax receivable agreement remeasurement represents a reduction in the liability of amounts due pursuant to the Tax Receivable Agreement as a result of the Tax Cuts and Jobs Act, or the Tax Act, recorded during the fiscal year ended September 30, 2018. For further information, see Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Impairment loss on Tremont Mortgage Trust investment. Impairment loss relates to our investment in TRMT whose estimated fair value has fallen below the carrying value, which we determined was other than temporary. For further information, see Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Unrealized loss on equity method investment accounted for under the fair value option. Unrealized loss on equity method investment accounted for under the fair value option represents the loss on our investment in TA common shares as a result of the decline in TA's share price subsequent to our acquisition of the common shares. For further information, see Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Equity in earnings (losses) of investees. Equity in earnings (losses) of investees represents our proportionate share of earnings and losses from our equity interest in TRMT.

Income tax expense. The decrease in income tax expense of \$31,542 is primarily attributable to the Tax Act, which reduced our federal statutory tax rate from 35% to 21% as of January 1, 2018 resulting in an adjustment to our deferred tax asset and related expense of \$19,817 for the fiscal year ended September 30, 2018. Due to our September 30 fiscal year end, the lower tax rate was phased in, resulting in a federal statutory tax rate of approximately 24.5% for the fiscal year ended September 30, 2018, as compared to our federal statutory tax rate for fiscal 2019 of approximately 21.0%. For further information, see Note 4, *Income Taxes*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Fiscal Year Ended September 30, 2018, Compared to the Fiscal Year Ended September 30, 2017

The following table presents the changes in our operating results for the fiscal year ended September 30, 2018 compared to the fiscal year ended September 30, 2017:

	Fiscal Year Ended September 30,			
	2018	2017	\$ Change	% Change
Revenues:				
Management services	\$ 191,594	\$174,887	\$ 16,707	9.6%
Incentive business management fees	155,881	52,407	103,474	197.4%
Advisory services	4,352	4,102	250	6.1%
Total management and advisory services revenues	<u>351,827</u>	<u>231,396</u>	<u>120,431</u>	<u>52.0%</u>
Reimbursable compensation and benefits	53,152	40,332	12,820	31.8%
Total reimbursable costs	<u>53,152</u>	<u>40,332</u>	<u>12,820</u>	<u>31.8%</u>
Total revenues	<u>404,979</u>	<u>271,728</u>	<u>133,251</u>	<u>49.0%</u>
Expenses:				
Compensation and benefits	108,763	92,625	16,138	17.4%
Equity based compensation	10,423	7,128	3,295	46.2%
Separation costs	3,730	—	3,730	n/m
Total compensation and benefits expense	<u>122,916</u>	<u>99,753</u>	<u>23,163</u>	<u>23.2%</u>
General and administrative	27,149	25,189	1,960	7.8%
Transaction and acquisition related costs	1,697	9,187	(7,490)	(81.5)%
Depreciation and amortization	1,248	2,038	(790)	(38.8)%
Total expenses	<u>153,010</u>	<u>136,167</u>	<u>16,843</u>	<u>12.4%</u>
Operating income	251,969	135,561	116,408	85.9%
Interest and other income	4,546	1,565	2,981	190.5%
Tax receivable agreement remeasurement	24,710	—	24,710	n/m
Impairment loss on Tremont Mortgage Trust investment	(4,359)	—	(4,359)	n/m
Equity in losses of investees	(578)	(206)	(372)	(180.6)%
Income before income tax expense	<u>276,288</u>	<u>136,920</u>	<u>139,368</u>	<u>101.8%</u>
Income tax expense	(58,862)	(28,251)	(30,611)	(108.4)%
Net income	<u>217,426</u>	<u>108,669</u>	<u>108,757</u>	<u>100.1%</u>
Net income attributable to noncontrolling interest	<u>(121,385)</u>	<u>(66,376)</u>	<u>(55,009)</u>	<u>(82.9)%</u>
Net income attributable to The RMR Group Inc.	<u>\$ 96,041</u>	<u>\$ 42,293</u>	<u>\$ 53,748</u>	<u>127.1%</u>

n/m—not meaningful

Management services revenue. For the fiscal years ended September 30, 2018 and 2017, we earned base business and property management services revenue from the following sources:

<u>Source</u>	<u>Fiscal Year Ended September 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Managed Equity REITs	\$161,162	\$146,824	\$14,338
Managed Operators	26,949	25,878	1,071
Other	3,483	2,185	1,298
Total	<u>\$191,594</u>	<u>\$174,887</u>	<u>\$16,707</u>

Management services revenue increased \$16,707 primarily due to (i) an increase of \$7,071 in base business management fees from the Managed Equity REITs largely due to OPI's acquisition of First Potomac Realty Trust, or FPO, in October 2017; and (ii) an increase of \$7,267 in property management fees at the Managed Equity REITs due to increases in the number of properties to which we provide property management services principally as a result of OPI's acquisition of FPO.

Incentive business management fees. Incentive business management fees for the fiscal year ended September 30, 2018 includes fees earned from SIR, SNH and SVC of \$25,569, \$55,740 and \$74,572, respectively, for the calendar year 2017. Incentive business management fees for the fiscal year ended September 30, 2017 include fees earned from SVC of \$52,407 for the calendar year 2016.

Advisory services revenue. Advisory services revenue increased by \$250, primarily due to revenues earned from TRMT subsequent to its initial public offering in September 2017 of \$765 and from RIF due to its rights offering of common equity, also in September 2017, of \$437, partially offset by a decrease in revenues of \$952 as a private fund managed by Tremont Advisors wound down during 2018.

Reimbursable compensation and benefits revenue. Reimbursable compensation and benefits revenue for the fiscal years ended September 30, 2018 and 2017 includes recognition of non-cash share based compensation granted by our Client Companies of \$7,421 and \$5,761, respectively. Reimbursable compensation and benefits revenue increased \$12,820 due primarily to increases in the number of properties we managed for the Managed Equity REITs and the related increase in the number of our employees and their associated compensation and benefits, which was primarily due to OPI's acquisition of FPO, as well as regular increases in employee compensation and benefits for which we receive reimbursement.

Compensation and benefits. Compensation and benefits expense increased \$16,138 primarily due to increased staffing as a result of increases in the number of properties we manage for the Managed Equity REITs, as well as annual employee salary, bonus and benefits increases.

Equity based compensation. Equity based compensation increased \$3,295 primarily due to appreciation of the Managed Equity REITs' share prices.

Separation costs. For further information about these costs, see Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

General and administrative. General and administrative expenses increased \$1,960 primarily due to costs associated with the growth of our operations, such as rent, travel, professional fees and recruiting costs.

Transaction and acquisition related costs. Transaction and acquisition related costs decreased \$7,490 primarily due to organization costs related to the formation, initial public offering and concurrent private placement of TRMT that occurred in the prior year.

Depreciation and amortization. Depreciation and amortization expense decreased \$790 primarily as a result of the intangible assets related to our acquisition of the Tremont business in August 2016 becoming fully amortized.

Interest and other income. Interest and other income increased \$2,981 primarily due to the combination of higher stated interest rates and increased cash balances invested during fiscal year 2018 compared to fiscal year 2017.

Tax receivable agreement remeasurement. The tax receivable agreement remeasurement represents a reduction in the liability of amounts due pursuant to the Tax Receivable Agreement as a result of the Tax Act. For further information, see Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Impairment loss on Tremont Mortgage Trust investment. Impairment loss relates to our investment in TRMT whose estimated fair value has fallen below the carrying value, which we have determined is other than temporary. For further information, see Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Equity in losses of investees. Equity in losses of investees represents our proportionate share of losses from our general partnership interest in a private fund managed by the Tremont business and our equity interest in TRMT.

Income tax expense. The increase in income tax expense is primarily attributable to \$19,817 in income tax expense due to the transitional impacts of the Tax Act, which required us to adjust our deferred tax asset for the reduction in the federal statutory rate. For further information, see Note 4, *Income Taxes*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES (dollars in thousands, except per share amounts)

Our current assets have historically been comprised predominantly of cash, cash equivalents and receivables for business management, property management and advisory services fees. Cash and cash equivalents include all short term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less from the date of purchase. As of September 30, 2019 and 2018, we had cash and cash equivalents of \$358,448 and \$256,848, respectively, of which \$26,883 and \$20,391, respectively, was held by RMR Inc., with the remainder being held at RMR LLC. As of September 30, 2019 and 2018, \$357,526 and \$253,876, respectively, of our cash and cash equivalents were invested in money market funds. The increase in cash and cash equivalents principally reflects cash generated from operations, including incentive business management fees earned during the fiscal year ended September 30, 2019.

Our current liabilities have historically included accounts payable and accrued expenses, including accrued employee compensation. As of September 30, 2019 and 2018, we had current liabilities of \$98,029 and \$28,307, respectively. The increase in current liabilities reflects the timing of income tax payments and an increase in accounts payable and accrued expenses of \$65,909 resulting from our adoption of ASC 606. For further information about our adoption of ASC 606, see Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Our liquidity is highly dependent upon our receipt of fees from the businesses that we manage. Historically, we have funded our working capital needs with cash generated from our operating activities and we currently do not maintain any credit facilities. The cash we generate from our operating activities could decline in future periods due to strategic capital recycling and declines in the common share prices at our Managed Equity REITs. More specifically, OPI is executing on its stated goal of disposing up to \$700,000 in assets, SNH is executing on its stated goal of disposing up to \$900,000 in assets and, as further discussed in the next paragraph, SVC is executing on its stated goal of disposing up to \$800,000 in assets as part of their strategic plans to reduce leverage. This disposition activity could result in reductions to our business and property management services revenue. Additionally, our business management fees and incentive management fees are also adversely impacted as our Managed Equity REITs share prices decline.

On September 20, 2019, SVC acquired a net leased portfolio of 767 service oriented retail properties for aggregate cash consideration of approximately \$2,400,000. In connection with this transaction, SVC has publicly stated its intention to sell approximately \$500,000 of the acquired assets and approximately \$300,000 of its existing hotel assets in an effort to reduce leverage levels. For illustrative purposes only, applying the fee percentages paid by SVC under its business management and property management agreements with RMR LLC to the \$2,400,000 purchase price (net of the assumed \$800,000 of dispositions) and \$172,000 of annual cash base rents (less \$36,000 of rents attributable to the potential sale of \$500,000 of the assets acquired), respectively, total incremental business management and property management fees to RMR LLC would be approximately \$12,000, before incremental operating costs at RMR LLC. These fee estimates are illustrative only and are subject to change. Actual future base business management fees will be based on the lower of the average historical cost of SVC's real estate assets and SVC's average market capitalization and, as a result, actual fees may be lower than the amount assumed above.

We expect that our future working capital needs will relate largely to our operating expenses, primarily consisting of employee compensation and benefits costs, our obligation to make quarterly tax distributions to the members of RMR LLC, our plan to make quarterly distributions on our Class A Common Shares and Class B-1 Common Shares and our plan to pay quarterly distributions to the members of RMR LLC in connection with the quarterly dividends to RMR Inc. shareholders. Our management fees are typically payable to us within 30 days of the end of each month or, in the case of annual incentive business management fees, within 30 days following each calendar year end. Historically, we have not experienced losses on collection of our fees and have not recorded any allowances for bad debts.

We currently intend to use our cash and cash flows to fund our working capital needs, pay our dividends and fund new business ventures, including our \$100,000 commitment to the Open End Fund. This commitment may be drawn in the future, subject to the timing of acquisitions and the raising of independent third party capital. We believe that our cash on hand and operating cash flow will be sufficient to meet our operating needs for the next 12 months and for the reasonably foreseeable future.

During the fiscal year ended September 30, 2019, we paid cash distributions to the holders of our Class A Common Shares, Class B-1 Common Shares and to the other owner of RMR LLC membership units in the aggregate amount of \$40,727. On November 14, 2019, we paid a quarterly dividend on our Class A Common Shares and Class B-1 Common Shares to our shareholders of record as of October 28, 2019 in the amount of \$0.38 per Class A Common Share and Class B-1 Common Share, or \$6,195. This dividend was partially funded by a distribution from RMR LLC to holders of its membership units in the amount of \$0.30 per unit, or \$9,391, of which \$4,891 was distributed to us based on our aggregate ownership of 16,302,320 membership units of RMR LLC and \$4,500 was distributed to ABP Trust based on its ownership of 15,000,000 membership units of RMR LLC. The remainder of this dividend was funded with cash accumulated at RMR Inc. See

Note 7, *Shareholders' Equity*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K for more information regarding these distributions.

For the fiscal year ended September 30, 2019, pursuant to the RMR LLC operating agreement, RMR LLC made required quarterly tax distributions to its holders of its membership units totaling \$79,074, of which \$41,099 was distributed to us and \$37,975 was distributed to ABP Trust, based on each membership unit holder's then respective ownership percentage in RMR LLC. The \$41,099 distributed to us was eliminated in our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, and the \$37,975 distributed to ABP Trust was recorded as a reduction of their noncontrolling interest. We used a portion of these funds distributed to us to pay our tax liabilities and amounts due under the Tax Receivable Agreement.

The Tax Receivable Agreement provides for the payment by RMR Inc. to ABP Trust of 85.0% of the amount of savings, if any, in U.S. federal, state and local income tax or franchise tax that RMR Inc. realizes as a result of (a) the increases in tax basis attributable to RMR Inc.'s dealings with ABP Trust and (b) tax benefits related to imputed interest deemed to be paid by it as a result of the Tax Receivable Agreement. In connection with the Tax Act and the resulting lower corporate income tax rates applicable to RMR Inc., we remeasured the amounts due pursuant to our Tax Receivable Agreement with ABP Trust and reduced our liability by \$24,710, which amount is presented in our consolidated statements of comprehensive income for the fiscal year ended September 30, 2018 as Tax Receivable Agreement remeasurement. See Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K and "Business—Our Organizational Structure—Tax Receivable Agreement" included in Part 1, Item 1 of this Annual Report on Form 10-K. As of September 30, 2019, our consolidated balance sheet reflects a liability related to the Tax Receivable Agreement of \$32,061, of which we expect to pay \$2,111 to ABP Trust during the fourth quarter of fiscal year 2020.

Cash Flows

Fiscal Year Ended September 30, 2019, Compared to the Fiscal Year Ended September 30, 2018

Our changes in cash flows for the fiscal year ended September 30, 2019 compared to the comparable prior year period were as follows: (i) net cash from operating activities decreased from \$228,470 in the fiscal year 2018 to \$198,214 in the fiscal year 2019; (ii) net cash used in investing activities increased from \$648 in the fiscal year 2018 to \$14,734 in the fiscal year 2019; and (iii) net cash used in financing activities increased from \$79,608 in the fiscal year 2018 to \$81,795 in the fiscal year 2019.

The decrease in net cash from operating activities for the fiscal year ended September 30, 2019, compared to the prior fiscal year was primarily due to declines in income from base business management and incentive business management fees. The increase in net cash used in investing activities for the fiscal year ended September 30, 2019 compared to the prior fiscal year was primarily due to our purchases of 1,492,691 TA common shares (298,538 common shares following the one-for-five reverse stock split of TA's common shares on August 1, 2019) and 1,000,000 TRMT common shares as part of TRMT's secondary offering. The increase in net cash used in financing activities for the fiscal year ended September 30, 2019 compared to the prior fiscal year was primarily due to an increased dividend rate of \$0.35 per Class A Common Share in the period ended September 30, 2019, offset by lower tax distributions based on current estimates for taxable income for that fiscal year, as well as the reduction in the federal statutory tax rate as a result of the Tax Act.

Fiscal Year Ended September 30, 2018, Compared to the Fiscal Year Ended September 30, 2017

Our changes in cash flows for the fiscal year ended September 30, 2018 compared to the comparable prior year period were as follows: (i) net cash from operating activities increased from \$125,936 in the fiscal year 2017 to \$228,470 in the fiscal year 2018; (ii) net cash used in investing activities decreased from \$12,829 in the fiscal year 2017 to \$648 in the fiscal year 2018; and (iii) net cash used in financing activities increased from \$70,299 in the fiscal year 2017 to \$79,608 in the fiscal year 2018.

The increase in net cash from operating activities for the fiscal year ended September 30, 2018, compared to the prior fiscal year primarily reflects the net effect of changes in our working capital activities between the two periods, including the collection of the 2017 calendar year incentive business management fee in fiscal year 2018. The decrease in net cash used in investing activities for the fiscal year ended September 30, 2018 compared to the prior fiscal year was primarily due to our investment in TRMT of \$12,002 in fiscal year 2017. The increase in net cash used in financing activities for the fiscal year ended September 30, 2018 compared to the prior fiscal year was primarily due to higher tax distributions to ABP Trust as the other owner of membership units of RMR LLC as a result of our increased taxable income.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, other than our \$100,000 commitment to the Open End Fund. For further information, see Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Market Risk and Credit Risk

We have not invested in derivative instruments, borrowed through issuing debt securities or transacted a significant part of our businesses in foreign currencies. As a result, we are not now subject to significant direct market risk related to interest rate changes, changes to the market standard for determining interest rates, commodity price changes or credit risks; however, if any of these risks were to negatively impact our Client Companies' businesses or market capitalization, our revenues would likely decline. To the extent we change our approach on the foregoing activities, or engage in other activities, our market and credit risks could change.

Risks Related to Cash and Short Term Investments

Our cash and cash equivalents include short term, highly liquid investments readily convertible to known amounts of cash that have original maturities of three months or less from the date of purchase. We invest a substantial amount of our cash in money market funds. The majority of our cash is maintained in U.S. bank accounts. Some U.S. bank account balances exceed the FDIC insurance limit. We believe our cash and short term investments are not subject to any material interest rate risk, equity price risk, credit risk or other market risk.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of September 30, 2019:

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	\$45,928	\$5,264	\$10,508	\$ 8,870	\$21,286
Tax Receivable Agreement	32,061	2,111	6,650	7,316	15,984
Total(1)	<u>\$77,989</u>	<u>\$7,375</u>	<u>\$17,158</u>	<u>\$16,186</u>	<u>\$37,270</u>

(1) In addition to the contractual obligations presented in this table, we also have a \$100,000 commitment to the Open End Fund that may be drawn in the future. For additional information regarding this commitment, see Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Related Person Transactions

We have relationships and historical and continuing transactions with Adam D. Portnoy, one of our Managing Directors, as well as our Client Companies. Our Managing Directors have historical and continuing relationships with our Client Companies and several of our Client Companies have material historical and ongoing relationships with other Client Companies. For example: Adam D. Portnoy is the sole trustee and owns all of the voting securities and a majority of the economic interests of our controlling shareholder, ABP Trust; ABP Trust also holds membership units of our subsidiary, RMR LLC; we are a party to a tax receivable agreement with ABP Trust; Adam D. Portnoy and Jennifer B. Clark, our other Managing Director, are also officers of ABP Trust and RMR Inc. and officers and employees of RMR LLC; Adam D. Portnoy serves as the chair of the board of trustees of each of the Managed Equity REITs, as a managing trustee of each Managed REIT and RIF and as the chair of the board of directors and a managing director of each of Five Star and TA; Jennifer B. Clark serves as a managing trustee of SNH and RIF; certain of our other officers serve as managing trustees, managing directors or directors of our Client Companies; all of the executive officers of the Managed Equity REITs and the Open End Fund and many of the executive officers of the Managed Operators are our officers and employees, TRMT's officers are officers or employees of Tremont Advisors or RMR LLC, and RIF's officers are officers or employees of RMR Advisors or RMR LLC; Adam D. Portnoy is an owner and director of Sonesta and Jennifer B. Clark is a director of Sonesta; and, until July 1, 2019, the Managed Equity REITs (other than ILPT) owned a majority of our outstanding Class A Common Shares and Adam D. Portnoy, directly and indirectly, owned approximately 35.8% of Five Star's outstanding common shares (including through ABP Trust); 4.1% of TA's outstanding common shares (including through RMR LLC) and 19.5% of TRMT's outstanding common shares (including through Tremont Advisors); and a subsidiary of ABP Trust is the general partner of the Open End Fund and ABP Trust is a limited partner of the Open End Fund. For further information about these and other such relationships and related person transactions, please see Note 2, *Summary of Significant Accounting Policies* and Note 6, *Related Person Transactions*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, which is incorporated herein by reference, the section captioned "Business" above in Part I, Item 1 of this Annual Report on Form 10-K, our other filings with the SEC and our definitive Proxy Statement for our 2020 Annual Meeting of Shareholders, or the 2020 Proxy Statement, to be filed within 120 days after the close of the fiscal year ended September 30, 2019. In addition, for more information about these transactions and relationships and about the risks that may arise as a result of these and other related person

transactions and relationships, please see elsewhere in this Annual Report on Form 10-K, including “Warning Concerning Forward Looking Statements” and Part I, Item 1A “Risk Factors.”

Critical Accounting Policies

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. The preparation of our financial statements requires our management to make certain critical accounting estimates and judgments that impact (i) the revenue recognized during the reporting periods and (ii) our principles of consolidation. These accounting estimates are based on our management’s judgment. We consider them to be critical because of their significance to our financial statements and the possibility that future events may cause differences from current judgments or because the use of different assumptions could result in materially different estimates. We review these estimates on a periodic basis to test their reasonableness. Although actual amounts likely differ from such estimated amounts, we believe such differences are not likely to be material.

Revenue Recognition. Our principal sources of revenue are:

- business management fees, including base and incentive business management fees; and
- property management fees, including construction supervision fees and reimbursement for certain compensation and benefits related expenses.

We recognize revenue from business management and property management fees as earned in accordance with our management agreements. We consider the incentive business management fees earned from the REITs that we manage to be contingent performance based fees, which we recognize as revenue when earned at the end of each measurement period. We also recognize as revenue certain compensation and benefits reimbursements in our capacity as property manager, at cost, when we incur the related reimbursable compensation and benefits and other costs on behalf of our Client Companies. See the “Revenue Recognition” section of Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K for a detailed discussion of our revenue recognition policies and our contractual arrangements.

Consolidation. Our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K include only the accounts of the entities we control. We continually assess whether our existing contractual rights give us the ability to direct the activities of the entities we manage that most significantly affect the results of that entity. The activities and factors we consider include, but are not limited to:

- our representation on the entity’s governing body;
- the size of our investment in each entity compared to the size of the entity and the size of other investors’ interests; and
- the ability and rights to participate in significant policy making decisions and to replace our manager of those entities.

Based on our historical assessments, we have not consolidated the entities we manage. We will reassess these conclusions if and when facts and circumstances indicate that there are changes to the elements evidencing control.

Recent Accounting Developments. For a discussion of recently issued accounting pronouncements and their impact or potential impact on our consolidated financial statements, see Note 3, *Recent Accounting Pronouncements*, to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative disclosures about market risk are set forth above in “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operation—Market Risk and Credit Risk.”

Item 8. Financial Statements and Supplementary Data

The information required by this item is included in Item 15 of this Annual Report on Form 10-K.

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

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Executive Vice President, Chief Financial Officer and Treasurer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, our President and Chief Executive Officer and our Executive Vice President, Chief Financial Officer and Treasurer concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Assessment of Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our assessment, we believe that, as of September 30, 2019, our internal control over financial reporting is effective.

This Annual Report on Form 10-K does not include an attestation report from our registered public accounting firm on our internal control over financial reporting due to the exemption for emerging growth companies created by the JOBS Act.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 of Form 10-K will be included in the 2020 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item 11 of Form 10-K will be included in the 2020 Proxy Statement and is incorporated herein by reference.

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

Equity Compensation Plan Information. We may grant our Class A Common Shares to our officers and employees under the 2016 Omnibus Equity Plan adopted in 2016, or the 2016 Plan. In addition, each of our Directors receives Class A Common Shares under the 2016 Plan as part of his or her annual compensation for serving as a Director. The terms of grants made under the 2016 Plan are determined by the Equity Plan Subcommittee of the Compensation Committee of our Board of Directors, at the time of the grant. The following table is as of September 30, 2019.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders—			
2016 Plan	None.	None.	297,290(1)
Equity compensation plans not approved by security holders . .	None.	None.	None.
Total	None.	None.	297,290(1)

(1) Consists of shares available for issuance pursuant to the terms of the 2016 Plan. Share awards that are repurchased or forfeited will be added to the shares available for issuance under the 2016 Plan.

Other information required by this Item 12 of Form 10-K will be included in the 2020 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Person Transactions, and Director Independence

The information required by this Item 13 of Form 10-K will be included in the 2020 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 of Form 10-K will be included in the 2020 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) *Index to Financial Statements and Financial Statement Schedules*

The following consolidated financial statements of The RMR Group Inc. are included on the pages indicated:

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of September 30, 2019 and 2018	F-2
Consolidated Statements of Comprehensive Income for the fiscal years ended September 30, 2019, 2018 and 2017	F-3
Consolidated Statements of Shareholders' Equity for the fiscal years ended September 30, 2019, 2018 and 2017	F-4
Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2019, 2018 and 2017	F-5
Notes to Consolidated Financial Statements	F-6

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, or are inapplicable, and therefore have been omitted.

(b) *Exhibits*

Exhibits to our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 have been included only with the version of that Annual Report on Form 10-K filed with the SEC.

A copy of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, including a list of exhibits, is available free of charge upon written request to: Investor Relations, The RMR Group Inc., Two Newton Place, 255 Washington Street, Suite 300, Newton, MA 02458-1634, telephone (617) 796-8230.

Item 16. Form 10-K Summary

None.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of The RMR Group Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The RMR Group Inc. (the Company) as of September 30, 2019 and 2018, the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2019 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2019, in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for revenue from contracts with customers in the year ended September 30, 2019.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2015.

Boston, Massachusetts
November 22, 2019

The RMR Group Inc.
Consolidated Balance Sheets
(dollars in thousands, except per share amounts)

	September 30,	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$358,448	\$256,848
Due from related parties	93,521	28,846
Prepaid and other current assets	12,888	10,392
Total current assets	464,857	296,086
Property and equipment, net	2,383	2,589
Due from related parties, net of current portion	9,238	8,183
Equity method investment	6,658	7,051
Equity method investment accounted for under the fair value option	3,682	—
Goodwill	1,859	1,859
Intangible assets, net of amortization	323	375
Deferred tax asset	25,729	25,726
Other assets, net of amortization	153,143	162,559
Total assets	\$667,872	\$504,428
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 98,029	\$ 28,307
Total current liabilities	98,029	28,307
Long term portion of deferred rent payable, net of current portion	1,620	1,229
Amounts due pursuant to tax receivable agreement, net of current portion	29,950	32,048
Employer compensation liability, net of current portion	9,238	8,183
Total liabilities	138,837	69,767
Commitments and contingencies		
Equity:		
Class A common stock, \$0.001 par value; 31,600,000 shares authorized; 15,302,710 and 15,229,957 shares issued and outstanding, respectively	15	15
Class B-1 common stock, \$0.001 par value; 1,000,000 shares authorized, issued and outstanding	1	1
Class B-2 common stock, \$0.001 par value; 15,000,000 shares authorized, issued and outstanding	15	15
Additional paid in capital	103,360	99,239
Retained earnings	257,457	182,877
Cumulative other comprehensive income	—	82
Cumulative common distributions	(72,194)	(49,467)
Total shareholders' equity	288,654	232,762
Noncontrolling interest	240,381	201,899
Total equity	529,035	434,661
Total liabilities and equity	\$667,872	\$504,428

See accompanying notes.

The RMR Group Inc.
Consolidated Statements of Comprehensive Income
(amounts in thousands, except per share amounts)

	Fiscal Year Ended September 30,		
	2019	2018	2017
Revenues:			
Management services	\$178,075	\$ 191,594	\$174,887
Incentive business management fees	120,094	155,881	52,407
Advisory services	3,169	4,352	4,102
Total management and advisory services revenues	<u>301,338</u>	<u>351,827</u>	<u>231,396</u>
Reimbursable compensation and benefits	57,490	53,152	40,332
Other client company reimbursable expenses	354,540	—	—
Total reimbursable costs	<u>412,030</u>	<u>53,152</u>	<u>40,332</u>
Total revenues	<u>713,368</u>	<u>404,979</u>	<u>271,728</u>
Expenses:			
Compensation and benefits	114,529	108,763	92,625
Equity based compensation	9,040	10,423	7,128
Separation costs	7,050	3,730	—
Total compensation and benefits expense	<u>130,619</u>	<u>122,916</u>	<u>99,753</u>
General and administrative	28,706	27,149	25,189
Other client company reimbursable expenses	354,540	—	—
Transaction and acquisition related costs	698	1,697	9,187
Depreciation and amortization	1,017	1,248	2,038
Total expenses	<u>515,580</u>	<u>153,010</u>	<u>136,167</u>
Operating income	197,788	251,969	135,561
Interest and other income	8,770	4,546	1,565
Tax receivable agreement remeasurement	—	24,710	—
Impairment loss on Tremont Mortgage Trust investment	(6,213)	(4,359)	—
Equity in earnings (losses) of investees	719	(578)	(206)
Unrealized loss on equity method investment accounted for under the fair value option	(4,700)	—	—
Income before income tax expense	<u>196,364</u>	<u>276,288</u>	<u>136,920</u>
Income tax expense	<u>(27,320)</u>	<u>(58,862)</u>	<u>(28,251)</u>
Net income	169,044	217,426	108,669
Net income attributable to noncontrolling interest	(94,464)	(121,385)	(66,376)
Net income attributable to The RMR Group Inc.	<u>\$ 74,580</u>	<u>\$ 96,041</u>	<u>\$ 42,293</u>
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(14)	(3)	1
Other comprehensive (loss) income	<u>(14)</u>	<u>(3)</u>	<u>1</u>
Comprehensive income	169,030	217,423	108,670
Comprehensive income attributable to noncontrolling interest	(94,457)	(121,384)	(66,376)
Comprehensive income attributable to The RMR Group Inc.	<u>\$ 74,573</u>	<u>\$ 96,039</u>	<u>\$ 42,294</u>
Weighted average common shares outstanding—basic	<u>16,132</u>	<u>16,077</u>	<u>16,032</u>
Weighted average common shares outstanding—diluted	<u>16,143</u>	<u>16,120</u>	<u>16,048</u>
Net income attributable to The RMR Group Inc. per common share—basic	<u>\$ 4.59</u>	<u>\$ 5.94</u>	<u>\$ 2.63</u>
Net income attributable to The RMR Group Inc. per common share—diluted	<u>\$ 4.59</u>	<u>\$ 5.92</u>	<u>\$ 2.63</u>

See accompanying notes.

The RMR Group Inc.
Consolidated Statements of Shareholders' Equity
(dollars in thousands)

	Class A Common Stock	Class B-1 Common Stock	Class B-2 Common Stock	Additional Paid In Capital	Retained Earnings	Cumulative Other Comprehensive Income	Cumulative Common Distributions	Total Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance at September 30, 2016	\$15	\$ 1	\$15	\$ 94,266	\$ 44,543	\$ 83	\$(17,209)	\$121,714	\$124,677	\$246,391
Share grants, net	—	—	—	1,612	—	—	—	1,612	—	1,612
Net income	—	—	—	—	42,293	—	—	42,293	66,376	108,669
Tax distributions to Member	—	—	—	—	—	—	—	—	(35,921)	(35,921)
Common share distributions	—	—	—	—	—	—	(16,089)	(16,089)	(15,000)	(31,089)
Other comprehensive income	—	—	—	—	—	1	—	1	—	1
Balance at September 30, 2017	15	1	15	95,878	86,836	84	(33,298)	149,531	140,132	289,663
Share grants, net	—	—	—	3,361	—	—	—	3,361	—	3,361
Net income	—	—	—	—	96,041	—	—	96,041	121,385	217,426
Fees from services provided prior to our initial public offering	—	—	—	—	—	—	—	—	(127)	(127)
Tax distributions to Member	—	—	—	—	—	—	—	—	(44,490)	(44,490)
Common share distributions	—	—	—	—	—	—	(16,169)	(16,169)	(15,000)	(31,169)
Other comprehensive loss	—	—	—	—	—	(2)	—	(2)	(1)	(3)
Balance at September 30, 2018	15	1	15	99,239	182,877	82	(49,467)	232,762	201,899	434,661
Share grants, net	—	—	—	4,121	—	—	—	4,121	—	4,121
Net income	—	—	—	—	74,580	—	—	74,580	94,464	169,044
Tax distributions to Member	—	—	—	—	—	—	—	—	(37,975)	(37,975)
Common share distributions	—	—	—	—	—	—	(22,727)	(22,727)	(18,000)	(40,727)
Other comprehensive loss	—	—	—	—	—	(7)	—	(7)	(7)	(14)
Reclassification due to disposition of our Australian operations	—	—	—	—	—	(75)	—	(75)	—	(75)
Balance at September 30, 2019	<u>\$15</u>	<u>\$ 1</u>	<u>\$15</u>	<u>\$103,360</u>	<u>\$257,457</u>	<u>\$ —</u>	<u>\$(72,194)</u>	<u>\$288,654</u>	<u>\$240,381</u>	<u>\$529,035</u>

See accompanying notes.

The RMR Group Inc.
Consolidated Statements of Cash Flows
(dollars in thousands)

	Fiscal Year Ended September 30,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net income	\$169,044	\$217,426	\$108,669
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,017	1,248	2,038
Straight line office rent	391	201	250
Amortization expense related to other assets	9,416	9,416	9,416
Deferred income taxes	(3)	19,815	278
Operating expenses paid in The RMR Group Inc. common shares	4,948	4,348	1,970
Contingent consideration liability	—	(491)	(578)
Tax receivable agreement remeasurement	—	(24,710)	—
Distributions from equity method investments	549	174	70
Equity in (earnings) losses of investees	(719)	578	206
Impairment loss on Tremont Mortgage Trust investment	6,213	4,359	—
Unrealized loss on equity method investment accounted for under the fair value option	4,700	—	—
Changes in assets and liabilities:			
Due from related parties	(64,849)	(3,736)	(366)
Prepaid and other current assets	(2,496)	(3,300)	(2,402)
Accounts payable and accrued expenses	70,003	3,142	6,385
Net cash from operating activities	<u>198,214</u>	<u>228,470</u>	<u>125,936</u>
Cash Flows from Investing Activities:			
Purchase of property and equipment	(702)	(648)	(827)
Equity method investment in TravelCenters of America Inc.	(8,382)	—	—
Equity method investment in Tremont Mortgage Trust	(5,650)	—	(12,002)
Advances to Tremont Mortgage Trust under the Credit Agreement	(14,220)	—	—
Repayments from Tremont Mortgage Trust under the Credit Agreement	14,220	—	—
Net cash used in investing activities	<u>(14,734)</u>	<u>(648)</u>	<u>(12,829)</u>
Cash Flows from Financing Activities:			
Distributions to noncontrolling interest	(55,975)	(59,490)	(50,921)
Distributions to common shareholders	(22,727)	(16,169)	(16,089)
Repurchase of common shares	(827)	(987)	(358)
Payments under tax receivable agreement	(2,266)	(2,962)	(2,931)
Net cash used in financing activities	<u>(81,795)</u>	<u>(79,608)</u>	<u>(70,299)</u>
Effect of exchange rate fluctuations on cash and cash equivalents	(85)	(6)	(1)
Increase in cash and cash equivalents	101,600	148,208	42,807
Cash and cash equivalents at beginning of period	256,848	108,640	65,833
Cash and cash equivalents at end of period	<u>\$358,448</u>	<u>\$256,848</u>	<u>\$108,640</u>
Supplemental Cash Flow Information:			
Income taxes paid	<u>\$ 29,620</u>	<u>\$ 37,653</u>	<u>\$ 27,765</u>
Supplemental Schedule of Non-Cash Activities:			
Fair value of share based payments recorded	<u>\$ 6,461</u>	<u>\$ 7,421</u>	<u>\$ 5,761</u>

See accompanying notes.

The RMR Group Inc.
Notes to Consolidated Financial Statements
(dollars in thousands, except per share amounts)

Note 1. Organization

The RMR Group Inc., or RMR Inc., is a holding company and substantially all of its business is conducted by its majority owned subsidiary The RMR Group LLC, or RMR LLC. RMR Inc. is a Maryland corporation and RMR LLC is a Maryland limited liability company. RMR Inc. serves as the sole managing member of RMR LLC and, in that capacity, operates and controls the business and affairs of RMR LLC. In these financial statements, unless otherwise indicated, “we”, “us” and “our” refer to RMR Inc. and its direct and indirect subsidiaries, including RMR LLC.

As of September 30, 2019, RMR Inc. owned 15,302,710 class A membership units of RMR LLC, or Class A Units, and 1,000,000 class B membership units of RMR LLC, or Class B Units. The aggregate RMR LLC membership units RMR Inc. owns represented 52.1% of the economic interest of RMR LLC as of September 30, 2019. We refer to economic interest as the right of a holder of a Class A Unit or Class B Unit to share in distributions made by RMR LLC and, upon liquidation, dissolution or winding up of RMR LLC, to share in the assets of RMR LLC after payments to creditors. A wholly owned subsidiary of ABP Trust, a Maryland statutory trust, owns 15,000,000 redeemable Class A Units, representing 47.9% of the economic interest of RMR LLC as of September 30, 2019, which is presented as a noncontrolling interest within the consolidated financial statements. Adam D. Portnoy, one of our Managing Directors, is the sole trustee of ABP Trust, and owns all of ABP Trust’s voting securities.

RMR LLC was founded in 1986 to manage public investments in real estate and, as of September 30, 2019, managed a diverse portfolio of publicly owned real estate and real estate related businesses. RMR LLC provides management services to four publicly traded real estate investment trusts, or REITs: Industrial Logistics Properties Trust, or ILPT, which primarily owns and leases industrial and logistics properties; Office Properties Income Trust, or OPI, which primarily owns office properties leased to single tenants and those with high quality credit characteristics, including the government; Senior Housing Properties Trust, or SNH, which primarily owns senior living, medical office and life science properties; and Service Properties Trust (formally known as Hospitality Properties Trust), or SVC, which owns a diverse portfolio of hotels and net lease service and necessity-based retail properties. Until December 31, 2018, RMR LLC provided management services to Select Income REIT, or SIR. On December 31, 2018, SIR merged with and into a subsidiary of OPI (then named Government Properties Income Trust, or GOV), or the GOV/SIR Merger, which then merged with and into OPI, with OPI as the surviving entity. The combined company continues to be managed by RMR LLC pursuant to OPI’s business and property management agreements with RMR LLC. ILPT, OPI, SNH, SVC and, until December 31, 2018, SIR, are collectively referred to as the Managed Equity REITs.

RMR LLC also provides management services to other publicly traded and private businesses, including: Five Star Senior Living Inc., or Five Star, a publicly traded operator of senior living communities, many of which are owned by SNH; Sonesta International Hotels Corporation, or Sonesta, a privately owned franchisor and operator of hotels, resorts and cruise ships in the United States, Latin America, the Caribbean and the Middle East, many of whose U.S. hotels are owned by SVC; and TravelCenters of America Inc., or TA, an operator and franchisor of travel centers along the U.S. Interstate Highway System, many of which are owned by SVC, standalone truck service facilities and restaurants. Hereinafter, Five Star, Sonesta and TA are collectively referred to as the Managed Operators. In addition, RMR LLC also provides management services to certain related

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 1. Organization (Continued)

private companies, including Affiliates Insurance Company, or AIC, an Indiana insurance company, ABP Trust and its subsidiaries, or collectively ABP Trust, and RMR Office Property Fund LP, or the Open End Fund.

RMR Advisors LLC, or RMR Advisors, is an investment adviser registered with the Securities and Exchange Commission, or SEC. RMR Advisors is a wholly-owned subsidiary of RMR LLC and is the adviser to RMR Real Estate Income Fund, or RIF. RIF is a closed end investment company focused on investing in real estate securities, including REITs and other dividend paying securities, but excluding our Client Companies, as defined below.

Tremont Realty Advisors LLC, or Tremont Advisors, an investment adviser registered with the SEC, was formed in connection with the acquisition of certain assets of Tremont Realty Capital LLC, or the Tremont business. Tremont Advisors is a wholly owned subsidiary of RMR LLC that manages Tremont Mortgage Trust, or TRMT, a publicly traded mortgage real estate investment trust that focuses primarily on originating and investing in first mortgage whole loans secured by middle market and transitional commercial real estate. Tremont Advisors has in the past and may in the future manage additional accounts that invest in commercial real estate debt, including secured mortgage debt. The Tremont business also acts as a transaction originator for non-investment advisory clients for negotiated fees.

In these financial statements, we refer to the Managed Equity REITs, the Managed Operators, RIF, TRMT, AIC, ABP Trust, the Open End Fund and the clients of the Tremont business as our Client Companies. We refer to the Managed Equity REITs and TRMT collectively as the Managed REITs.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation. All intercompany transactions and balances with or among the consolidated entities have been eliminated.

Equity Method Investments. As of September 30, 2019, Tremont Advisors owned 1,600,100, or approximately 19.4%, of TRMT's outstanding common shares. We account for our investment in TRMT using the equity method of accounting because we are deemed to exert significant influence, but not control, over TRMT's most significant activities. Our share of earnings from our investment in TRMT included in equity in earnings (losses) of investees in our consolidated statement of comprehensive income for the fiscal year ended September 30, 2019 was \$719 and our share of losses for the fiscal years ended September 30, 2018 and 2017 was \$545 and \$46, respectively.

We perform periodic evaluations of potential impairment of our investment in TRMT. We record an impairment charge to reduce the carrying value of our TRMT investment to its fair value when determining, based on the length of time and the extent to which the market value is below our carrying value, that the decline in fair value is other than temporary. We determine fair value using the closing price of TRMT common shares, a Level 1 fair value input, as of the reporting period end date in which an impairment is recorded. During the fiscal years ended September 30, 2019 and 2018, we recorded impairment charges of \$6,213 and \$4,359, respectively, totaling \$10,572 which represents the basis difference between the carrying value of our investment and our proportionate share of TRMT's total shareholders' book equity.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

We also have a 0.5% general partnership interest in a fund created for an institutional investor that is managed by Tremont Advisors. We account for this investment under the equity method of accounting and record our share of the investment's earnings or losses each period. This fund is in the process of winding down, and we did not record any earnings or losses from this investment during the fiscal year ended September 30, 2019. Our share of losses from this fund for the fiscal years ended September 30, 2018 and 2017 were \$33 and \$160, respectively, and are included in equity in earnings (losses) of investees in our consolidated statements of comprehensive income. In addition, the private fund made distributions to its partners for which our share for the fiscal years ended September 30, 2018 and 2017 was \$174 and \$70, respectively.

Equity Method Investment Accounted for Under the Fair Value Option. On October 10, 2018, we purchased 1,492,691 (298,538 common shares following the one-for-five reverse stock split of TA's common shares on August 1, 2019), or approximately 3.7%, of TA's outstanding common shares for a purchase price of \$8,382. We account for our investment in TA using the equity method of accounting because we are deemed to exert significant influence, but not control, over TA's most significant activities. We have elected the fair value option to account for our equity method investment in TA. We determined fair value using the closing price of TA's common shares as of September 30, 2019, which is a Level 1 fair value input. The market value of our investment in TA at September 30, 2019, based on a quoted market price, is \$3,682. The unrealized loss in our consolidated statement of comprehensive income for the fiscal year ended September 30, 2019 related to our investment in TA was \$4,700.

Variable Interest Entities. We regularly evaluate our relationships and investments to determine if they constitute variable interests. A variable interest is an investment or interest that will absorb portions of an entity's expected losses or receive portions of an entity's expected returns. If we determine we have a variable interest in an entity, we evaluate whether such interest is in a variable interest entity, or VIE. Under the VIE model, we would be required to consolidate a VIE we manage if we are determined to be the primary beneficiary of the entity. We assessed whether we must consolidate any of the entities we manage. Consideration of factors included, but was not limited to, our representation on the entity's governing body, the size of our investment in each entity compared to the size of the entity and the size of other investors' interests, the ability and rights to participate in significant policy making decisions and to replace the manager of those entities. Based on this assessment, we concluded that we are not required to consolidate any of our Client Companies. The relationships and investments related to entities in which we have a variable interest are summarized in Note 6, *Related Person Transactions*.

Cash and Cash Equivalents. We consider highly liquid investments with original maturities of three months or less on the date of purchase to be cash equivalents, the majority of which is held at major commercial banks. Certain cash account balances exceed Federal Deposit Insurance Corporation insurance limits of \$250,000 per account and, as a result, there is a concentration of credit risk related to amounts in excess of the insurance limits. We regularly monitor the financial stability of these financial institutions and believe that we are not exposed to any significant credit risk in cash and cash equivalents.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

Property and Equipment. Property and equipment are stated at cost. Depreciation of furniture and equipment is computed using the straight line method over estimated useful lives ranging from three to ten years. Depreciation for leasehold improvements is computed using the straight line method over the term of the lesser of their useful lives or related lease agreements.

The following is a summary of property and equipment presented in our consolidated balance sheets:

	September 30,	
	2019	2018
Furniture and equipment	\$ 4,600	\$ 4,444
Leasehold improvements	1,040	1,063
Capitalized software costs	492	478
Total property and equipment	6,132	5,985
Accumulated depreciation	(3,749)	(3,396)
Property and equipment, net	\$ 2,383	\$ 2,589

Depreciation expense related to property and equipment for the fiscal years ended September 30, 2019, 2018 and 2017, was \$849, \$873 and \$968, respectively.

Capitalized Software Costs. We capitalize costs associated with the development and implementation of software created or obtained for internal use in accordance with Accounting Standards Codification, or ASC 340-50, *Internal Use Software*. Capitalized costs are depreciated using the straight line method over useful lives ranging between three and five years. Depreciation expense related to capitalized software costs for the fiscal years ended September 30, 2019, 2018 and 2017, were \$117, \$288 and \$447, respectively.

Goodwill. Goodwill represents the costs of business acquisitions in excess of the fair value of identifiable net assets acquired. We evaluate the recoverability of goodwill annually in the fourth quarter of each fiscal year, or more frequently, if events or changes in circumstances indicate that goodwill might be impaired. If our review indicates that the carrying amount of goodwill exceeds its fair value, we would reduce the carrying amount of goodwill to fair value.

Equity-Based Compensation. The awards made under our share award plan to our directors and employees to date have been shares of Class A common stock of RMR Inc., or Class A Common Shares. Shares issued to Directors vest immediately. Shares issued to employees vest in five equal, consecutive, annual installments, with the first installment vesting on the date of grant. We recognize share forfeitures as they occur. Compensation expense related to share grants is determined based on the market value of our shares on the date of grant, with the aggregate value of the granted shares amortized to expense over the related vesting period. Expense recognized for shares granted to Directors are included in general and administrative expenses and for shares granted to employees are included in equity based compensation in our consolidated statements of comprehensive income.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition. Revenues from services that we provide are recognized as earned over time in accordance with contractual agreements. The services we provide represent performance obligations that are satisfied over time.

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, *Revenue from Contracts with Customers*, which has been codified as ASC, Section 606, or ASC 606. We adopted ASC 606 effective October 1, 2018 using the modified retrospective method for all our existing contracts. The main provision of ASC 606 is to recognize revenue when control of the goods or services transfers to the customer, as opposed to the previous guidance of recognizing revenue when the risk and rewards transfer to the customer. Under ASC 606, control of the services before transfer to the client is the primary factor in determining principal versus agent assessments. Based on our evaluation of ASC 606, we have determined that we control the services provided by third parties for our Client Companies and therefore we account for the cost of these services and the related reimbursement revenue on a gross basis. Prior to adoption, costs of such services were accounted for on a net basis, with the exception of amounts related to reimbursed payroll.

Base Business Management Fees—Managed Equity REITs

We earn annual base business management fees from the Managed Equity REITs by providing continuous services pursuant to business management agreements equal to the lesser of:

- the sum of (a) 0.5% of the historical cost of transferred real estate assets, if any, as defined in the applicable business management agreement, plus (b) 0.7% of the average invested capital (exclusive of the transferred real estate assets), as defined in the applicable business management agreement, up to \$250,000, plus (c) 0.5% of the average invested capital exceeding \$250,000; and
- the sum of (a) 0.7% of the average market capitalization, as defined in the applicable business management agreement, up to \$250,000, plus (b) 0.5% of the average market capitalization exceeding \$250,000.

The foregoing base business management fees are paid monthly in arrears. For purposes of these fees, a Managed Equity REIT's assets under management do not include shares it owns of another Client Company.

Our management agreements with the Managed Equity REITs have terms that end on December 31, 2039, and automatically extend on December 31st of each year so that the terms of the agreements thereafter end on the 20th anniversary of the date of the extension. Each of the Managed Equity REITs has the right to terminate each management agreement: (i) at any time on 60 days' written notice for convenience, (ii) immediately upon written notice for cause, as defined therein, (iii) on 60 days' written notice given within 60 days after the end of an applicable calendar year for a performance reason, as defined therein, and (iv) by written notice during the 12 months following a change of control of RMR LLC, as defined therein. We have the right to terminate the management agreements for good reason, as defined therein.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

Under our management agreements with the Managed Equity REITs, if a Managed Equity REIT terminates our management agreements for convenience, or if we terminate one or both of our management agreements with a Managed Equity REIT for good reason, the Managed Equity REIT is obligated to pay us a termination fee in an amount equal to the sum of the present values of the Managed Equity REIT's monthly future fees, as defined therein, for the terminated management agreement(s) for the remaining term, assuming it had not been terminated. If a Managed Equity REIT terminates one or both of our management agreements for a performance reason, as defined therein, the Managed Equity REIT has agreed to pay to us the termination fee calculated as described above, but assuming a remaining term of 10 years. No termination fee is payable by a Managed Equity REIT if it terminates one or both of our management agreements for cause or as a result of a change of control of us, as defined in the applicable management agreement.

For the fiscal years ended September 30, 2019, 2018 and 2017, we earned aggregate base business management fees from the Managed Equity REITs of \$103,800, \$120,448 and \$113,377, respectively.

Incentive Business Management Fees—Managed Equity REITs

We also may earn annual incentive business management fees from the Managed Equity REITs under the business management agreements. The incentive business management fees, which are payable in cash, are contingent performance based fees recognized only when earned at the end of each respective measurement period. Incentive business management fees are excluded from the transaction price until it becomes probable that there will not be a significant reversal of cumulative revenue recognized.

The incentive fees are calculated for each Managed Equity REIT as 12.0% of the product of (a) the equity market capitalization of the Managed Equity REIT, as defined in the applicable business management agreement, on the last trading day of the year immediately prior to the relevant measurement period and (b) the amount, expressed as a percentage, by which the Managed Equity REIT's total return per share, as defined in the applicable business management agreement, exceeded the applicable benchmark total return per share, as defined in the applicable business management agreement, of a specified REIT index identified in the applicable business management agreement for the measurement period, as adjusted for net share issuances during the period and subject to caps on the values of the incentive fees. The measurement period for the annual incentive business management fees is the calendar year period ended on December 31 of the applicable year. On December 31, 2018, RMR LLC's business management agreements with ILPT and OPI were amended to provide that for periods beginning on and after January 1, 2019, the SNL U.S. Industrial REIT Index and the SNL U.S. Office REIT Index will be used by ILPT and OPI, respectively, rather than the SNL U.S. REIT Equity Index, to calculate the benchmark return per share, as defined, for purposes of determining the incentive management fee, if any, payable thereunder.

For the fiscal years ended September 30, 2019, 2018 and 2017, we recognized aggregate incentive business management fees earned from the Managed Equity REITs of \$120,094, \$155,881 and \$52,407, respectively.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

Management Agreements—Managed Operators, ABP Trust, AIC and the Open End Fund

We earn management fees by providing continuous services pursuant to the management agreements from the Managed Operators and ABP Trust equal to 0.6% of: (i) in the case of Five Star, Five Star's revenues from all sources reportable under Generally Accepted Accounting Principles, or GAAP, less any revenues reportable by Five Star with respect to properties for which it provides management services, plus the gross revenues at those properties determined in accordance with GAAP; (ii) in the case of Sonesta, Sonesta's revenues from all sources reportable under GAAP, less any revenues reportable by Sonesta with respect to hotels for which it provides management services, plus the gross revenues at those hotels determined in accordance with GAAP; (iii) in the case of TA, the sum of TA's gross fuel margin, as defined in the applicable agreement, plus TA's total nonfuel revenues; and (iv) in the case of ABP Trust, revenues from all sources reportable under GAAP. These fees are estimated and payable monthly in advance.

Until June 30, 2019, we earned fees from AIC pursuant to a management agreement equal to 3.0% of its total premiums paid under active insurance underwritten or arranged by AIC. AIC's property insurance program expired on June 30, 2019 and was not continued. As a result, we have not earned any management fees since that date. AIC is in the process of dissolving.

We earn fees from the Open End Fund by providing a continuing and suitable real estate investment program consistent with the Open End Fund's real estate investment policies and objectives pursuant to an administration services agreement. We earn fees equal to 1.0% of the Open End Fund's net asset value, as defined, annually. These fees are payable quarterly in arrears.

For the fiscal years ended September 30, 2019, 2018 and 2017, we earned aggregate fees from the Managed Operators, ABP Trust, AIC and the Open End Fund of \$28,471, \$27,609 and \$26,255, respectively.

Property Management Fees

We earn property management fees by providing continuous services pursuant to property management agreements with certain Client Companies. We generally earn fees under these agreements equal to 3.0% of gross collected rents. Also, under the terms of the property management agreements, we receive additional fees for construction supervision in connection with certain construction activities undertaken at the managed properties equal to 5.0% of the cost of such construction. For the fiscal years ended September 30, 2019, 2018 and 2017, we earned aggregate property management fees of \$45,550, \$42,482 and \$34,823, respectively.

Advisory Services and Other Agreements

RMR Advisors is compensated pursuant to its agreement with RIF at an annual rate of 0.85% of RIF's average daily managed assets. Average daily managed assets includes the net asset value attributable to RIF's outstanding common shares, plus the liquidation preference of RIF's outstanding preferred shares, plus the principal amount of any borrowings, including from banks or evidenced by notes, commercial paper or other similar instruments issued by RIF. RMR Advisors earned advisory services revenue for the fiscal years ended September 30, 2019, 2018 and 2017, of \$3,013, \$2,888 and \$2,451, respectively.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

Tremont Advisors is primarily compensated pursuant to its management agreement with TRMT at an annual rate of 1.5% of TRMT's equity, as defined in the agreement. Tremont Advisors may also earn an incentive fee under this management agreement beginning in the fourth quarter of calendar year 2018 equal to the difference between: (a) the product of (i) 20% and (ii) the difference between (A) TRMT's core earnings, as defined in the agreement, for the most recent 12 month period (or such lesser number of completed calendar quarters, if applicable), including the calendar quarter (or part thereof) for which the calculation of the incentive fee is being made, and (B) the product of (1) TRMT's equity in the most recent 12 month period (or such lesser number of completed calendar quarters, if applicable), including the calendar quarter (or part thereof) for which the calculation of the incentive fee is being made, and (2) 7% per year and (b) the sum of any incentive fees paid to Tremont Advisors with respect to the first three calendar quarters of the most recent 12 month period (or such lesser number of completed calendar quarters preceding the applicable period, if applicable). No incentive fee shall be payable with respect to any calendar quarter unless TRMT's core earnings for the 12 most recently completed calendar quarters (or such lesser number of completed calendar quarters from the date of the completion of the TRMT's initial public offering) in the aggregate is greater than zero. The incentive fee may not be less than zero. In June 2018, Tremont Advisors agreed to waive any business management fees otherwise due and payable by TRMT pursuant to the management agreement for the period beginning July 1, 2018 until June 30, 2020. In addition, no incentive fee was paid or will be payable by TRMT to Tremont Advisors for the 2018 or 2019 calendar years, respectively.

Tremont Advisors earned advisory services revenue of \$156, \$1,464 and \$1,651 for the fiscal years ended September 30, 2019, 2018 and 2017, respectively, in each case net of the fee waiver referenced above, as applicable.

The Tremont business earns between 0.5% and 1.0% of the aggregate principal amounts of any loans it originates. For the fiscal years ended September 30, 2019, 2018 and 2017, the Tremont business earned fees for such origination services of \$194, \$1,055 and \$432, respectively, which amounts are included in management services revenue in our consolidated statements of comprehensive income.

Reimbursable Compensation and Benefits

Reimbursable compensation and benefits include reimbursements, at cost, that arise primarily from services we provide pursuant to our property management agreements, a significant portion of which are charged or passed through to and were paid by tenants of our Client Companies. We recognize the revenue for reimbursements when we incur the related reimbursable compensation and benefits and other costs on behalf of our Client Companies. We realized reimbursable compensation and benefits for the fiscal years ended September 30, 2019, 2018 and 2017, of \$57,490, \$53,152 and \$40,332, respectively. Included in reimbursable compensation and benefits are shared services fees we earn from TRMT for compensation and other costs related to the operation of the Tremont business. We earned shared services fees from TRMT of \$1,446, \$1,500 and \$53 for the fiscal years ended September 30, 2019, 2018 and 2017, respectively.

Reimbursable compensation and benefits include grants of common shares from Client Companies directly to certain of our officers and employees in connection with the provision of

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

management services to those companies. The revenue in respect of each grant is based on the fair value as of the grant date for those shares that have vested, with subsequent changes in the fair value of the unvested grants being recognized in our consolidated statements of comprehensive income over the requisite service periods. We record an equal offsetting amount as equity based compensation expense for the value of the grants of common shares from our Client Companies to certain of our officers and employees. We realized equity based compensation expense and related reimbursements for the fiscal years ended September 30, 2019, 2018 and 2017, of \$6,461, \$7,421 and \$5,761, respectively.

Other Client Company Reimbursable Expenses

Other client company reimbursable expenses include reimbursements that arise from services we provide pursuant to our property management agreements, a significant portion of which are charged or passed through to and were paid by tenants of our Client Companies. Based on our evaluation of ASC 606, we have determined that we control the services provided by third parties for our Client Companies and therefore we account for the cost of these services and the related reimbursement revenue on a gross basis.

As a result of adopting ASC 606, our consolidated statement of comprehensive income for the fiscal year ended September 30, 2019 reflects corresponding increases in revenue and expense of \$354,540 in other client company reimbursable expenses, compared to the same period last year, with no impact on net income. Our consolidated balance sheet as of September 30, 2019 also include other client company reimbursable expenses due from related parties and a related liability in accounts payable and accrued expenses of \$65,909.

Other assets. On June 5, 2015 in connection with the formation of RMR Inc., each of OPI (then GOV and SIR), SNH and SVC contributed cash and shares with a combined value of \$167,764. The consideration received from such Managed Equity REITs for our Class A Common Shares represented a discount to the fair value of RMR Inc.'s Class A Common Shares in the amount of \$193,806, which we recorded in other assets. The other assets are being amortized against revenue recognized related to the management agreements using the straight line method through the period ended December 31, 2035. For the fiscal years ended September 30, 2019, 2018 and 2017, we reduced revenue by \$9,416 each year, related to the amortization of these other assets. As of September 30, 2019, the remaining amount of these other assets to be amortized was \$153,143.

Transaction and acquisition related costs. Transaction and acquisition related costs include costs related to completed and potential management services contracts, pre-commencement costs, acquisitions and other transactions. Such costs include advisory, underwriting expenses, commissions paid to third-party broker dealers, legal, accounting, valuation, other professional or consulting and regulatory filing fees. Transaction and acquisition related costs are expensed as incurred.

Use of Estimates. Preparation of these financial statements in conformity with GAAP requires our management to make certain estimates and assumptions that may affect the amounts reported in these financial statements and related notes. The actual results could differ from these estimates.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 2. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk. Financial instruments which potentially subject us to concentrations of credit risk are primarily cash and amounts due from related parties. Historically, we have not experienced losses related to our banking relationships or to the credit of our Client Companies whose receivables are listed on our balance sheet as due from related parties.

Note 3. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, as amended, or ASU No. 2016-02, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU No. 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right of use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. ASU No. 2016-02 is effective for us as of October 1, 2019. We expect to adopt the new standard along with certain allowable practical expedients using the modified retrospective transition approach. At October 1, 2019, we will record a right of use asset and a lease liability of approximately \$40,000, related to real estate operating leases. The adoption of the new standard is not expected to affect our consolidated statements of comprehensive income and cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, or ASU No. 2016-13, which requires that entities use a new forward looking “expected loss” model that generally will result in the earlier recognition of allowance for credit losses. The measurement of expected credit losses is based upon historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU No. 2016-13 will become effective for fiscal years beginning after December 15, 2019. We are continuing to assess this guidance, but we have not historically experienced credit losses from our Client Companies and do not expect the adoption of ASU No. 2016-13 to have a material impact on our consolidated financial statements.

Note 4. Income Taxes

We are the sole managing member of RMR LLC. We are a corporation subject to U.S. federal and state income tax with respect to our allocable share of any taxable income of RMR LLC and its tax consolidated subsidiaries. RMR LLC is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, RMR LLC is generally not subject to U.S. federal and most state income taxes. Any taxable income or loss generated by RMR LLC is passed through to and included in the taxable income or loss of its members, including RMR Inc. and ABP Trust, based on each member’s respective ownership percentage.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act, or the Tax Act. The Tax Act significantly revised the U.S. corporate income tax system, by among other things, lowering corporate income tax rates. Since we have a September 30 fiscal year end, the lower corporate income tax rate of 21.0% was phased in,

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 4. Income Taxes (Continued)

resulting in a federal statutory tax rate of approximately 24.5% for our fiscal year ending September 30, 2018. The Tax Act reduction in corporate income tax rate also caused us to adjust our deferred tax asset to the lower federal base rates, resulting in an increase in income tax expense of \$19,817 for the year ending September 30, 2018. The new corporate income tax rate of 21.0% is effective for our 2019 fiscal year.

We had income (loss) before income taxes as follows:

	September 30,		
	2019	2018	2017
United States	\$196,364	\$276,340	\$136,971
Foreign	—	(52)	(51)
Total	<u>\$196,364</u>	<u>\$276,288</u>	<u>\$136,920</u>

We had a provision for income taxes which consists of the following:

	September 30,		
	2019	2018	2017
Current:			
Federal	\$20,020	\$29,644	\$22,792
State	7,302	9,403	5,181
Deferred:			
Federal	(28)	15,043	245
State	26	4,772	33
Total	<u>\$27,320</u>	<u>\$58,862</u>	<u>\$28,251</u>

A reconciliation of the statutory income tax rate to the effective tax rate is as follows:

	September 30,		
	2019	2018	2017
Income taxes computed at the federal statutory rate	21.0%	24.5%	35.0%
State taxes, net of federal benefit	2.9%	2.6%	2.5%
Tax Act transitional impact(1)	—%	7.2%	—%
Permanent items(2)	0.1%	(2.2)%	—%
Net income attributable to noncontrolling interest	(10.1)%	(10.8)%	(16.9)%
Total	<u>13.9%</u>	<u>21.3%</u>	<u>20.6%</u>

- (1) Transitional impact for the year ending September 30, 2018 is the \$19,817 adjustment to our deferred tax asset due to the reduction in our corporate income tax rate under the Tax Act.
- (2) Permanent items for the year ending September 30, 2018 include the \$24,710 reduction in our liability related to the Tax Receivable Agreement with ABP Trust discussed in Note 6, *Related Person Transactions*.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 4. Income Taxes (Continued)

The components of the deferred tax assets as of September 30, 2019 and 2018 are as follows:

	September 30,	
	2019	2018
Deferred tax assets:		
Other deferred asset	\$ —	\$ 378
Outside basis difference in partnership interest	25,729	25,726
Total deferred tax assets	25,729	26,104
Valuation allowance	—	(378)
Total deferred tax assets	\$25,729	\$25,726

ASC 740, *Income Taxes*, provides a model for how a company should recognize, measure and present in its financial statements uncertain tax positions that have been taken or are expected to be taken with respect to all open years and in all significant jurisdictions. Pursuant to this topic, we recognize a tax benefit only if it is “more likely than not” that a particular tax position will be sustained upon examination or audit. To the extent the “more likely than not” standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50.0% likely to be realized upon settlement. As of September 30, 2019, 2018 and 2017, we had no uncertain tax positions.

Note 5. Fair Value of Financial Instruments

As of September 30, 2019 and 2018, the fair values of our financial instruments, which include cash and cash equivalents, amounts due from related parties and accounts payable and accrued expenses, were not materially different from their carrying values due to the short term nature of these financial instruments.

Recurring Fair Value Measures

On a recurring basis, we measure certain financial assets and financial liabilities at fair value based upon quoted market prices. ASC 820, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). A financial asset’s or financial liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 5. Fair Value of Financial Instruments (Continued)

Level 1 Estimates

The following are our assets and liabilities that all have been measured at fair value using Level 1 inputs in the fair value hierarchy as of September 30, 2019 and 2018:

	September 30,	
	2019	2018
Money market funds included in cash and cash equivalents	\$357,526	\$253,876
Current portion of due from related parties related to share based payment awards	4,814	4,986
Long term portion of due from related parties related to share based payment awards	9,238	8,183
Current portion of employer compensation liability related to share based payment awards included in accounts payable and accrued expenses	4,814	4,986
Long term portion of employer compensation liability related to share based payment awards	9,238	8,183

Note 6. Related Person Transactions

Adam D. Portnoy, one of our Managing Directors, is the sole trustee of our controlling shareholder, ABP Trust, and owns all of ABP Trust's voting securities and a majority of the economic interests of ABP Trust. As of September 30, 2019, Adam D. Portnoy beneficially owned, in aggregate, (i) 144,502 Class A Common Shares; (ii) all the outstanding shares of Class B-1 common stock of RMR Inc., or Class B-1 Common Shares; (iii) all the outstanding shares of Class B-2 common stock of RMR Inc., or Class B-2 Common Shares; and (iv) 15,000,000 Class A Units of RMR LLC.

Adam D. Portnoy is also the chair of the board of trustees of each of the Managed Equity REITs, the chair of the board of directors of each of Five Star and TA, a managing trustee or managing director of each of the Managed REITs, Five Star, RIF and TA, a director of AIC and the majority owner and director of Sonesta. Jennifer B. Clark, our other Managing Director, is a managing trustee of SNH and RIF, president and chief executive officer of AIC and a director of Sonesta. As of September 30, 2019, Adam D. Portnoy beneficially owned, in aggregate, 35.8% of Five Star's outstanding common shares, 1.1% of SVC's outstanding common shares, 1.2% of ILPT's outstanding common shares, 1.5% of OPI's outstanding common shares, 1.1% of SNH's outstanding common shares, 4.1% of TA's outstanding common shares (including through RMR LLC), 2.3% of RIF's outstanding common shares, and 19.5% of TRMT's outstanding common shares (including through Tremont Advisors).

On July 1, 2019, OPI, SNH and SVC sold all their Class A Common Shares in an underwritten public offering at a price to the public of \$40.00 per share pursuant to an underwriting agreement among us, those Managed Equity REITs and the underwriters named therein.

The Managed Equity REITs and AIC have no employees. RMR LLC provides or arranges for all the personnel, overhead and services required for the operation of the Managed Equity REITs and AIC pursuant to management agreements with them. All the officers of the Managed Equity REITs, AIC and the Open End Fund are officers or employees of RMR LLC. TRMT has no employees. All

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 6. Related Person Transactions (Continued)

the officers, overhead and required office space of TRMT are provided or arranged by Tremont Advisors. All of TRMT's officers are officers or employees of Tremont Advisors or RMR LLC. Many of the executive officers of the Managed Operators are officers or employees of RMR LLC. All of RIF's officers are officers or employees of RMR Advisors or RMR LLC. Some of our executive officers are also managing directors or managing trustees of certain of the Managed REITs, the Managed Operators and RIF.

As of September 30, 2019, ABP Trust owned 14.3% of AIC and 206,300 limited partnership units of the Open End Fund and RMR LLC owned no limited partnership units, but it has committed to contributing \$100,000 to the Open End Fund. The general partner of the Open End Fund is a subsidiary of ABP Trust.

Revenues from Related Parties

For the fiscal years ended September 30, 2019, 2018 and 2017, we recognized revenues from related parties as set forth in the following table:

	Fiscal Year Ended September 30,					
	2019(1)		2018		2017	
	\$	%	\$	%	\$	%
Managed Equity REITs:						
ILPT	\$ 43,242	6.1%	\$ 10,935	2.7%	\$ —	—%
OPI(2)	239,291	33.5	53,954	13.3	35,378	13.0
SIR(2)(3)	47,843	6.7	62,321	15.4	44,746	16.5
SNH	210,728	29.5	118,301	29.2	60,926	22.4
SVC	102,029	14.3	118,596	29.3	95,198	35.0
	<u>643,133</u>	<u>90.1</u>	<u>364,107</u>	<u>89.9</u>	<u>236,248</u>	<u>86.9</u>
Managed Operators:						
Five Star	9,702	1.4	9,840	2.4	9,624	3.5
Sonesta	3,186	0.4	2,847	0.7	2,341	0.9
TA	14,191	2.0	15,357	3.8	14,772	5.4
	<u>27,079</u>	<u>3.8</u>	<u>28,044</u>	<u>6.9</u>	<u>26,737</u>	<u>9.8</u>
Other Client Companies:						
ABP Trust	15,070	2.1	4,865	1.2	3,916	1.5
AIC	570	0.1	240	0.1	240	0.1
Open End Fund	20,366	2.9	608	0.2	—	—
RIF	3,013	0.4	2,888	0.7	2,451	0.9
TRMT	3,509	0.5	2,505	0.6	85	—
	<u>42,528</u>	<u>6.0</u>	<u>11,106</u>	<u>2.8</u>	<u>6,692</u>	<u>2.5</u>
Total revenues from related parties . . .	712,740	99.9	403,257	99.6	269,677	99.2
Revenues from unrelated parties	628	0.1	1,722	0.4	2,051	0.8
	<u>\$713,368</u>	<u>100.0%</u>	<u>\$404,979</u>	<u>100.0%</u>	<u>\$271,728</u>	<u>100.0%</u>

(1) Revenues from related parties for the fiscal year ended September 30, 2019 include other Client Company reimbursable expenses of \$354,540 and reflects the adoption of ASC 606 as summarized in Note 2, *Summary of Significant Accounting Policies*.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 6. Related Person Transactions (Continued)

- (2) SIR merged with and into OPI on December 31, 2018 with OPI continuing as the surviving entity. This table presents revenues for the fiscal years ended September 30, 2018 and 2017 and, for the part of the fiscal year ended September 30, 2019, from SIR separately as they relate to periods prior to this merger.
- (3) For the three months ended December 31, 2018, we recognized \$47,843 in revenues from SIR, which amounted to 17.1% of our revenues from related parties for that period.

For additional information regarding our management or advisory agreements with these related parties, please see Note 2, *Summary of Significant Accounting Policies*.

TRMT Initial Public Offering and 2019 Offering

On September 18, 2017, TRMT, then a 100% owned subsidiary of Tremont Advisors, completed an initial public offering, or the TRMT IPO. Tremont Advisors entered into a management agreement with TRMT, dated September 18, 2017, pursuant to which Tremont Advisors provides certain services to TRMT. Tremont Advisors agreed to pay 100% of the initial organizational costs related to TRMT's formation and the costs of the TRMT IPO, which costs totaled approximately \$6,573 and are included in transaction and acquisition related costs in our consolidated statements of comprehensive income for the fiscal year ending September 30, 2017.

Concurrently with the closing of the TRMT IPO, Tremont Advisors purchased 600,000 common shares of TRMT at \$20.00 per share, the initial public offering price in the TRMT IPO, pursuant to a private placement purchase agreement entered into by Tremont Advisors and TRMT on September 13, 2017. This private placement purchase agreement also provides Tremont Advisors with demand and "piggyback" registration rights, subject to certain limitations, covering the common shares of TRMT owned by Tremont Advisors.

On May 21, 2019, TRMT issued and sold 5,000,000 common shares of beneficial interest, \$0.01 par value per share, or TRMT Common Shares, in an underwritten public offering, or the Offering, pursuant to an underwriting agreement among TRMT, Tremont Advisors and the underwriters. Tremont Advisors purchased 1,000,000 TRMT Common Shares in the Offering at a total price of \$5,650. The underwriters did not receive any discount for the TRMT Common Shares that Tremont Advisors purchased in the Offering.

As of September 30, 2019, Tremont Advisors owned 1,600,100 (including 100 common shares issued to Tremont Advisors in connection with TRMT's formation in June 2017), or approximately 19.4%, of TRMT's common shares.

Credit Agreement between TRMT and Tremont Advisors

Until May 23, 2019, TRMT was a party to a credit agreement with Tremont Advisors as the lender, or the Credit Agreement. Pursuant to the Credit Agreement, from time to time until August 4, 2019, the scheduled expiration date of the Credit Agreement, TRMT was able to borrow up to \$25,000 and, beginning May 3, 2019, up to \$50,000 in subordinated unsecured loans at a rate of 6.50% per annum.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 6. Related Person Transactions (Continued)

In connection with TRMT's repayment of the outstanding amount of \$14,220 on May 23, 2019, TRMT terminated the Credit Agreement. As part of the repayment amount, TRMT paid Tremont Advisors approximately \$39 of interest and \$7 of facility fees related to the Credit Agreement.

RIF Rights Offering

In September 2017, RIF completed a pro rata offering of transferable rights to holders of RIF common shares, which rights entitled the holders thereof to subscribe for up to 2,550,502 RIF common shares, in aggregate, at a subscription price equal to \$17.74 per RIF common share. RMR Advisors agreed to pay all expenses of this rights offering of approximately \$2,277. ABP Trust is a shareholder of RIF and purchased 19,642 RIF common shares in this rights offering. In addition, Adam D. Portnoy, a shareholder of RIF, and Barry M. Portnoy, now deceased but at the time a shareholder of RIF, purchased 54,524 and 282,297 RIF common shares in this rights offering, respectively.

RMR Office Property Fund LP

On August 31, 2018, ABP Trust formed the Open End Fund. In connection with the formation of the Open End Fund, ABP Trust contributed 15 properties to the Open End Fund with an aggregate value of \$206,300 in exchange for 206,300 limited partnership units in the Open End Fund and RMR LLC committed to contribute up to \$100,000 to the Open End Fund when called by the general partner in exchange for 100,000 limited partnership units in the Open End Fund. The valuation of the 15 properties contributed to the Open End Fund by ABP Trust was agreed to by a special committee of our Board of Directors consisting of members that were unaffiliated with ABP Trust and with the assistance of an independent third-party appraiser. This same special committee also approved RMR LLC's \$100,000 capital commitment to the Open End Fund.

ABP Office Property Fund General Partner LLC, a wholly owned subsidiary of ABP Trust, is the general partner of the Open End Fund. RMR LLC conducts and performs fund management functions for the Open End Fund, including the evaluation of real estate assets to be invested in, planning and other business and administrative functions.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 6. Related Person Transactions (Continued)

Amounts Due From Related Parties

The following table represents amounts due from related parties as of the dates indicated:

	September 30,	
	2019(1)	2018
Managed Equity REITs:		
ILPT	\$ 10,630	\$ 2,692
OPI	39,233	7,870
SIR	—	5,887
SNH	25,505	9,705
SVC	18,933	8,391
	94,301	34,545
Managed Operators:		
Five Star	136	281
Sonesta	37	30
TA	392	599
	565	910
Other Client Companies:		
ABP Trust	2,580	383
AIC	7	20
Open End Fund	4,567	608
RIF	75	31
TRMT	664	532
	7,893	1,574
	\$102,759	\$37,029

(1) Amounts due from related parties as of September 30, 2019 include other Client Company reimbursable expenses of \$65,909 reflecting the adoption of ASC 606 as summarized in Note 2, *Summary of Significant Accounting Policies*.

Leases

As of September 30, 2019, we leased from ABP Trust and certain Managed Equity REITs office space for use as our headquarters and local offices. During the fiscal years ended September 30, 2019, 2018 and 2017, we incurred rental expense under related party leases aggregating \$5,646, \$4,839 and \$4,184, respectively. Our related party leases have various termination dates and many have renewal options. Some of our related party leases are terminable on 30 days' notice and many allow us to terminate early if our management agreements for the buildings in which we lease space are terminated.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 6. Related Person Transactions (Continued)

Tax-Related Payments

Pursuant to our Tax Receivable Agreement with ABP Trust, RMR Inc. pays to ABP Trust 85.0% of the amount of cash savings, if any, in U.S. federal, state and local income or franchise tax that RMR Inc. realizes as a result of (a) the increases in tax basis attributable to RMR Inc.'s dealings with ABP Trust and (b) tax benefits related to imputed interest deemed to be paid by RMR Inc. as a result of the Tax Receivable Agreement. In connection with the Tax Act and the resulting lower corporate income tax rates applicable to RMR Inc., we remeasured the amounts due pursuant to our Tax Receivable Agreement with ABP Trust and reduced our liability by \$24,710, or \$1.53 per share, which is presented on our consolidated statements of comprehensive income for the fiscal year ended September 30, 2018 as Tax Receivable Agreement remeasurement. During the fiscal years ended September 30, 2019, 2018 and 2017, we paid \$2,266, \$2,962 and \$2,931, respectively, to ABP Trust pursuant to the Tax Receivable Agreement. As of September 30, 2019, our consolidated balance sheet reflects a liability related to the Tax Receivable Agreement of \$32,061, including \$2,111 classified as a current liability that we expect to pay to ABP Trust during the fourth quarter of fiscal year 2020.

Under the RMR LLC operating agreement, RMR LLC is also required to make certain pro rata distributions to each member of RMR LLC quarterly on the basis of the estimated tax liabilities of its members estimated quarterly, subject to future adjustment based on actual results. For the fiscal years ended September 30, 2019, 2018 and 2017, pursuant to the RMR LLC operating agreement, RMR LLC made required quarterly tax distributions to holders of its membership units totaling \$79,074, \$92,430 and \$74,447, respectively, of which \$41,099, \$47,940 and \$38,526, respectively, was distributed to us and \$37,975, \$44,490 and \$35,921, respectively, was distributed to ABP Trust, based on each membership unit holder's respective ownership percentage. The amounts distributed to us were eliminated in our consolidated financial statements, and the amounts distributed to ABP Trust were recorded as a reduction of its noncontrolling interest. We used funds from these distributions to pay our U.S. federal and state income tax liabilities and to pay our obligations under the Tax Receivable Agreement.

Tender Offer for Shares of Five Star by Certain Related Persons

On November 11, 2016, a subsidiary of ABP Trust, ABP Acquisition LLC, purchased 17,999,999 shares of Five Star common stock at \$3.00 per share pursuant to a public tender offer. Following this purchase, Adam D. Portnoy, Barry M. Portnoy (now deceased), ABP Trust and ABP Acquisition LLC collectively owned 18,339,621 shares of Five Star common stock, or approximately 36.8% of Five Star's then outstanding common stock. On September 30, 2019, Five Star effected a one-for-ten reverse stock split. As of September 30, 2019, and after giving effect to that reverse stock split, Adam D. Portnoy, directly and indirectly through ABP Trust, owned 1,817,549 shares of Five Star common stock, or approximately 35.8% of Five Star's then outstanding common stock.

In connection with ABP Acquisition LLC's purchase of the Five Star common stock, ABP Trust, ABP Acquisition LLC and our founders also entered into a consent, standstill, registration rights and lock-up agreement with Five Star pursuant to which ABP Trust, ABP Acquisition LLC, Adam D. Portnoy and Barry M. Portnoy each agreed not to transfer, except for certain permitted transfers as provided therein, any shares of Five Star common stock acquired after October 2, 2016, including

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 6. Related Person Transactions (Continued)

shares acquired in the tender offer but not including shares issued to Barry M. Portnoy or Adam D. Portnoy under a Five Star equity compensation plan, for a lock-up period of up to ten years. They also each agreed, for a period of ten years, not to engage, and to cause their controlled affiliates (a term which includes us and our subsidiaries) not to engage, in certain activities involving Five Star without the approval of the Five Star board of directors, including not to make or seek to effect any tender or exchange offer, merger or other business combination, or extraordinary transaction involving Five Star or a sale of all or a substantial portion of Five Star's consolidated assets or solicit proxies to vote any voting securities of Five Star or encourage others to take any of the restricted activities. This consent, standstill, registration rights and lock-up agreement also provides ABP Trust, ABP Acquisition LLC and Adam D. Portnoy with certain demand and "piggyback" registration rights with respect to certain shares of Five Star common stock, at any time after the lock-up period described above, subject to specified terms and conditions.

Purchase of TA Shares

On October 10, 2018, RMR LLC purchased 1,492,691 TA common shares from TA's former Managing Director, President and Chief Executive Officer pursuant to a right of first refusal. RMR LLC paid an aggregate purchase price of \$8,382 for these shares. On August 1, 2019, TA affected a one-for-five reverse stock split. As a result, as of September 30, 2019, RMR LLC owned 298,538 shares of TA common stock.

Registration and Lock-up Agreements

We are parties to the following registration rights agreements, which we entered in connection with RMR LLC's reorganization in June 2015:

- *ABP Trust Registration Rights Agreement.* RMR Inc. is party to a registration rights agreement with ABP Trust pursuant to which RMR Inc. has granted ABP Trust demand and piggyback registration rights, subject to certain limitations, covering the Class A Common Shares ABP Trust owns, including the shares received on conversion of Class B-1 Common Shares or redemption of the paired Class B-2 Common Shares and Class A Units of RMR LLC.
- *Founders Registration Rights and Lock-Up Agreements.* Adam D. Portnoy and ABP Trust are parties to a registration rights and lock-up agreement with each of OPI, SNH and SVC with respect to each such Managed Equity REITs' common shares pursuant to which ABP Trust and Adam D. Portnoy agreed not to transfer the Managed Equity REITs' common shares they acquired in connection with RMR LLC's reorganization in June 2015 for a period of ten years, subject to certain exceptions, and each of those Managed Equity REITs has granted ABP Trust and Adam D. Portnoy demand and piggyback registration rights, subject to certain limitations.

Relationships Between Client Companies

Several of our Client Companies have historical and ongoing material relationships with other Client Companies. As of September 30, 2019, SVC owned 8.5% of the outstanding common shares

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 6. Related Person Transactions (Continued)

of TA and SNH owned 8.3% of the outstanding common stock of Five Star. Each of ABP Trust, the Managed Equity REITs, Five Star and TA owns 14.3% of AIC. SVC is TA's principal landlord and TA is SVC's largest tenant, operating travel center locations owned by SVC pursuant to long term leases. SNH is Five Star's principal landlord and Five Star is SNH's largest tenant and manager of senior living communities, operating senior living communities owned by SNH pursuant to long term agreements. In April 2019, SNH and Five Star agreed to restructure their business arrangements. If the transactions contemplated by those restructuring arrangements are completed, among other things, Five Star will manage all the SNH senior living communities that FVE operates, FVE will issue shares of its common stock to SNH so that, following such issuance, SNH will own approximately 34% of Five Star's outstanding common stock, and Five Star will distribute a number of shares of Five Star common stock that equals approximately 51% of its then outstanding common shares to SNH's shareholders; the noted percentage ownership amounts are post-issuance, after giving effect to the issuances of Five Star common stock to SNH and SNH's shareholders. Those transactions are expected to be completed as of January 1, 2020, but the transactions are subject to conditions; as a result, those transactions may not occur, may be delayed or their terms may change. Sonesta manages a number of SVC's hotels pursuant to long term management agreements. On December 31, 2018, SIR merged with and into a wholly owned subsidiary of OPI. Several of the independent trustees and independent directors of our publicly owned Client Companies also serve as independent trustees or independent directors of other publicly owned Client Companies, and one of our Managing Directors and the independent trustees and independent directors of the Managed REITs, Five Star and TA serve on the board of directors of AIC.

Separation Arrangements

David J. Hegarty, Mark L. Kleifges, Bruce J. Mackey Jr., Thomas M. O'Brien and John C. Popeo, each a former Executive Vice President of RMR LLC, retired from and resigned their RMR LLC officer positions between November 29, 2017 and December 31, 2018. We entered into retirement agreements with these former officers in connection with their retirements. Pursuant to these agreements, we made various cash payments and accelerated the vesting of unvested shares RMR Inc. previously awarded to these retiring officers. We also enter into separation arrangements from time to time with other nonexecutive officers and employees of ours. As of September 30, 2019, there remained no further substantive performance obligations with respect to any such arrangements, and we in turn recognized all applicable provisions in our consolidated statement of comprehensive income as separation costs.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 6. Related Person Transactions (Continued)

For the fiscal years ended September 30, 2019 and 2018, we recognized cash and equity based separation costs as set forth in the following table:

	Fiscal Year Ended September 30,	
	2019	2018
Former executive officers:		
Cash separation costs	\$5,312	\$1,875
Equity based separation costs	1,488	483
	6,800	2,358
Former nonexecutive officers:		
Cash separation costs	153	1,372
Equity based separation costs	97	—
	250	1,372
Total separation costs	\$7,050	\$3,730

Other

The Managed REITs and Managed Operators award common shares directly to certain of our officers and employees in connection with the provision of services to those companies. For a description of the accounting implications to us of these share awards, please see Note 2, *Summary of Significant Accounting Policies* and Note 7, *Shareholders' Equity*.

The compensation of senior executives of the Managed Operators, who are also employees or officers of RMR LLC, is the sole responsibility of the party to or on behalf of which the individual renders services. In the past, because at least 80.0% of each of these executives' business time was devoted to services to the Managed Operator, 80.0% of their total cash compensation was paid by the Managed Operator and the remainder was paid by RMR LLC.

In June 2017, we became aware that we had been a victim of a criminal fraud that law enforcement authorities refer to as business email compromise fraud. This fraud involved a person pretending to be the representative of the seller in a property acquisition transaction for one of our Managed Equity REITs. The impostor provided fraudulent wire instructions to one of our senior level employees. As a result, funds were sent by wire transfer to an account that was believed to be, but in fact was not, the seller's account, which resulted in our incurring a loss of \$590, as well as additional expenses of \$184 in connection with this matter for the fiscal year ended September 30, 2017. We recorded these amounts in general and administrative expense in our consolidated statements of comprehensive income. The affected Managed Equity REIT did not incur any loss in connection with this matter.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 7. Shareholders' Equity

Common Shares

RMR Inc.'s authorized capital stock consists of 31,600,000 shares of Class A Common Shares, 1,000,000 Class B-1 Common Shares and 15,000,000 Class B-2 Common Shares.

Class A Common Shares—Class A Common Shares entitle holders to one vote for each share held of record on all matters submitted to a vote of shareholders.

Class B-1 Common Shares—Class B-1 Common Shares entitle holders to ten votes for each share on all matters submitted to a vote of shareholders. Each Class B-1 Common Share may, at the option of its holder, be converted into a Class A Common Share, on a one for one basis.

Class B-2 Common Shares—ABP Trust owns 15,000,000 Class B-2 Common Shares, which are paired with the 15,000,000 RMR LLC Class A Units and have no independent economic interest in RMR Inc. The Class A Units may, at the option of the holder, be redeemed for Class A Common Shares on a one to one basis, and upon such redemption our Class B-2 Common Shares that are paired with the Class A Units are automatically canceled. RMR Inc. has the option to settle the redemption in cash. Each Class B-2 Common Share entitles the holder to ten votes per share, and, accordingly, the issuance of additional Class B-2 Common Shares would have a significant dilutive effect on the voting power of the then current holders of our Class A Common Shares.

Except as otherwise required in the charter or by applicable law, all holders of Class A Common Shares, Class B-1 Common Shares, and Class B-2 Common Shares shall vote together as a single class on all matters on which shareholders are generally entitled to vote. The holders of a class of common shares shall each be entitled to vote separately as a single class with respect to (and only with respect to) amendments to the charter that alter or change the powers or rights of the shares of such class of common shares so as to affect them materially and adversely; provided, however, if such amendments affect all holders of common shares materially and adversely in the same manner, the separate voting requirement shall not be applicable and all holders of common shares shall vote together as a single class.

Issuances and Repurchases

We grant our Class A Common Shares to our officers and employees under the 2016 Omnibus Equity Plan adopted in 2016, or the 2016 Plan. In addition, each of our Directors receives Class A Common Shares under the 2016 Plan as part of his or her annual compensation for serving as a Director. During the fiscal years ended September 30, 2019, 2018 and 2017, we granted to our Managing Directors, in their capacities as our officers and employees, and to certain of our other officers and employees, an aggregate of 77,900, 65,000 and 76,100, respectively, of our Class A Common Shares. We also granted to each of our Managing Directors and Independent Directors 2,500 of our Class A Common Shares during each of the fiscal years ended September 30, 2019, 2018 and 2017 as part of his or her annual compensation for serving as a Director.

The Class A Common Shares granted to our Independent Directors and Managing Directors, in their capacities as Directors, vest immediately and are included in general and administrative expense in our consolidated statements of comprehensive income. The Class A Common Shares granted to our Managing Directors, in their capacities as our officers and employees, and to our

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 7. Shareholders' Equity (Continued)

other officers and employees vest in five equal annual installments beginning on the date of the grant and are included in equity based compensation expense in our consolidated statements of comprehensive income. During the fiscal years ended September 30, 2019, 2018 and 2017, we recorded general and administrative expenses of \$784, \$864 and \$603, respectively, and equity based compensation expenses of \$2,579, \$3,001 and \$1,367, respectively, related to awards we made under the 2016 Plan.

In connection with the vesting and issuance of awards of our common shares to Directors, officers and employees, we repurchase our Class A Common Shares to satisfy tax withholding and payment obligations. The repurchase price is based on the repurchase date closing price of our Class A Common Shares on The Nasdaq Stock Market LLC, or Nasdaq. The aggregate value of Class A Common Shares repurchased during the fiscal years ended September 30, 2019, 2018 and 2017, was \$827, \$987 and \$358, respectively, which is reflected as a decrease to shareholders' equity in our consolidated balance sheets.

In connection with the issuances and repurchases of our Class A Common Shares, and as required by the RMR LLC operating agreement, RMR LLC concurrently issues or acquires an identical number of Class A Units from RMR Inc.

A summary of shares granted and vested (including shares withheld and repurchased or forfeited) under the terms of the 2016 Plan for the fiscal years ended September 30, 2019, 2018 and 2017 is as follows:

	2019		2018		2017	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares, beginning of year	110,240	\$69.11	104,020	\$45.57	57,760	\$37.84
Shares granted	90,400	\$48.31	77,500	\$90.83	88,600	\$50.65
Vested shares withheld and repurchased	(17,167)	\$48.18	(11,369)	\$86.92	(6,966)	\$51.35
Shares vested	(56,833)	\$51.46	(59,671)	\$64.90	(35,374)	\$44.69
Shares forfeited	(480)	\$68.95	(240)	\$84.90	—	\$ —
Unvested shares, end of year	<u>126,160</u>	\$59.38	<u>110,240</u>	\$69.11	<u>104,020</u>	\$45.57

The 126,160 unvested shares as of September 30, 2019 are scheduled to vest as follows: 49,890 shares in 2020, 34,900 shares in 2021, 25,790 shares in 2022 and 15,580 in 2023. As of September 30, 2019, the estimated future compensation expense for the unvested shares was \$7,491 based on the grant date fair value of these shares. The weighted average period over which this compensation expense will be recorded is approximately 25 months. At September 30, 2019, 297,290 of our common shares remained available for issuance under the 2016 Plan.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 7. Shareholders' Equity (Continued)

Distributions

During the fiscal years ended September 30, 2019 and 2018, we declared and paid distributions on our Class A Common Shares and Class B-1 Common Shares as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Paid Date</u>	<u>Distributions Per Common Share</u>	<u>Total Distributions</u>
<i>Fiscal Year 2019</i>				
10/18/2018	10/29/2018	11/15/2018	\$0.35	\$ 5,680
1/18/2019	1/28/2019	2/21/2019	0.35	5,680
4/18/2019	4/29/2019	5/16/2019	0.35	5,684
7/18/2019	7/29/2019	8/15/2019	0.35	5,683
			<u>\$1.40</u>	<u>\$22,727</u>
<i>Fiscal Year 2018</i>				
10/12/2017	10/23/2017	11/16/2017	\$0.25	\$ 4,041
1/19/2018	1/29/2018	2/22/2018	0.25	4,040
4/19/2018	4/30/2018	5/17/2018	0.25	4,044
7/19/2018	7/30/2018	8/16/2018	0.25	4,044
			<u>\$1.00</u>	<u>\$16,169</u>

These distributions were funded by distributions from RMR LLC to holders of its membership units as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Paid Date</u>	<u>Distributions Per RMR LLC Membership Unit</u>	<u>Total RMR LLC Distributions</u>	<u>RMR LLC Distributions to RMR Inc.</u>	<u>RMR LLC Distributions to ABP Trust</u>
<i>Fiscal Year 2019</i>						
10/18/2018	10/29/2018	11/15/2018	\$0.30	\$ 9,369	\$ 4,869	\$ 4,500
1/18/2019	1/28/2019	2/21/2019	0.30	9,369	4,869	4,500
4/18/2019	4/29/2019	5/16/2019	0.30	9,372	4,872	4,500
7/18/2019	7/29/2019	8/15/2019	0.30	9,371	4,871	4,500
			<u>\$1.20</u>	<u>\$37,481</u>	<u>\$19,481</u>	<u>\$18,000</u>
<i>Fiscal Year 2018</i>						
10/12/2017	10/23/2017	11/16/2017	\$0.25	\$ 7,791	\$ 4,041	\$ 3,750
1/19/2018	1/29/2018	2/22/2018	0.25	7,790	4,040	3,750
4/19/2018	4/30/2018	5/17/2018	0.25	7,794	4,044	3,750
7/19/2018	7/30/2018	8/16/2018	0.25	7,794	4,044	3,750
			<u>\$1.00</u>	<u>\$31,169</u>	<u>\$16,169</u>	<u>\$15,000</u>

On November 14, 2019, we paid a quarterly dividend on our Class A Common Shares and Class B-1 Common Shares, in the amount of \$0.38 per Class A Common Share and Class B-1 Common Share, or \$6,195. This dividend was paid to our shareholders of record as of the close of business on October 28, 2019. This dividend was partially funded by a distribution from RMR LLC to

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 7. Shareholders' Equity (Continued)

holders of its membership units in the amount of \$0.30 per unit, or \$9,391, of which \$4,891 was distributed to us based on our then aggregate ownership of 16,302,320 membership units of RMR LLC and \$4,500 was distributed to ABP Trust based on its ownership of 15,000,000 membership units of RMR LLC. The remainder of this dividend was funded with cash accumulated at RMR Inc.

Note 8. Per Common Share Amounts

Earnings per common share reflects net income attributable to RMR Inc. divided by our weighted average common shares outstanding. Basic and diluted weighted average common shares outstanding represents our outstanding Class A Common Shares and our Class B-1 Common Shares during the applicable periods. Our Class B-2 Common Shares, which are paired with ABP Trust's Class A Units, have no independent economic interest in RMR Inc. and thus are not included as common shares outstanding for purposes of calculating our net income attributable to RMR Inc. per common share.

Unvested Class A Common Shares granted to our employees are deemed participating securities for purposes of calculating earnings per common share because they have dividend rights. We calculate earnings per share using the two-class method. Under the two-class method, we allocate earnings proportionately to vested Class A Common Shares and Class B-1 Common Shares outstanding and unvested Class A Common Shares outstanding for the period. Earnings attributable to unvested Class A Common Shares are excluded from earnings per share under the two-class method as reflected in our consolidated statements of comprehensive income.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 8. Per Common Share Amounts (Continued)

The calculation of basic and diluted earnings per share is as follows:

	Fiscal Year Ended September 30,		
	2019	2018	2017
Basic EPS			
Numerator:			
Net income attributable to The RMR Group Inc.	\$74,580	\$96,041	\$42,293
Income attributable to unvested participating securities	(482)	(564)	(158)
Net income attributable to The RMR Group Inc. used in calculating basic EPS	<u>\$74,098</u>	<u>\$95,477</u>	<u>\$42,135</u>
Denominator:			
Weighted average common shares outstanding—basic	<u>16,132</u>	<u>16,077</u>	<u>16,032</u>
Net income attributable to The RMR Group Inc. per common share—basic	<u>\$ 4.59</u>	<u>\$ 5.94</u>	<u>\$ 2.63</u>
Diluted EPS			
Numerator:			
Net income attributable to The RMR Group Inc.	\$74,580	\$96,041	\$42,293
Income attributable to unvested participating securities	(482)	(564)	(158)
Net income attributable to The RMR Group Inc. used in calculating diluted EPS	<u>\$74,098</u>	<u>\$95,477</u>	<u>\$42,135</u>
Denominator:			
Weighted average common shares outstanding—basic	16,132	16,077	16,032
Dilutive effect of incremental unvested shares	11	43	16
Weighted average common shares outstanding—diluted	<u>16,143</u>	<u>16,120</u>	<u>16,048</u>
Net income attributable to The RMR Group Inc. per common share—diluted	<u>\$ 4.59</u>	<u>\$ 5.92</u>	<u>\$ 2.63</u>

The 15,000,000 Class A Units that we do not own may be redeemed for our Class A Common Shares on a one-for-one basis, or upon such redemption, we may elect to pay cash instead of issuing Class A Common Shares. Upon redemption of a Class A Unit, the Class B-2 Common Share “paired” with such unit is canceled for no additional consideration. If all outstanding Class A Units that we do not own had been redeemed for our Class A Common Shares in the periods presented, our Class A Common Shares outstanding as of September 30, 2019, would have been 30,302,710. In computing the dilutive effect, if any, that the aforementioned redemption would have on earnings per share, we considered that net income available to holders of our Class A Common Shares would increase due to elimination of the noncontrolling interest (including any tax impact). For the periods presented, such redemption is not reflected in diluted earnings per share as the assumed redemption would be anti-dilutive.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 9. Net Income Attributable to RMR Inc.

Net income attributable to RMR Inc. for the fiscal years ended September 30, 2019, 2018 and 2017, is calculated as follows:

	Fiscal Year Ended September 30,		
	2019	2018	2017
Income before income tax expense	\$196,364	\$ 276,288	\$136,920
RMR Inc. franchise tax expense and interest income	329	488	635
Tax receivable agreement remeasurement	—	(24,710)	—
Fees from services provided prior to our initial public offering	—	(127)	—
Net income before noncontrolling interest	196,693	251,939	137,555
Net income attributable to noncontrolling interest	(94,464)	(121,258)	(66,376)
Net income attributable to RMR Inc. before income tax expense	102,229	130,681	71,179
Tax receivable agreement remeasurement	—	24,710	—
Income tax expense attributable to RMR Inc.	(27,320)	(58,862)	(28,251)
RMR Inc. franchise tax expense and interest income	(329)	(488)	(635)
Net income attributable to RMR Inc.	<u>\$ 74,580</u>	<u>\$ 96,041</u>	<u>\$ 42,293</u>

Note 10. Employee Benefits

We have established a defined contribution savings plan for eligible employees under the provisions of U.S. Internal Revenue Code Section 401(k) whereby we contribute 100.0% of the first 3.0% and 50.0% of the next 2.0% of an employee's cash compensation contributed to the plan up to stated maximums. All employees are eligible to participate in the plan and are entitled, upon termination or retirement, to receive their vested portion of the plan assets. Employees' contributions and our related matching contributions are fully vested when made. Our plan contributions and expenses for the fiscal years ended September 30, 2019, 2018 and 2017 were \$2,466, \$2,213 and \$1,789, respectively.

Note 11. Commitments

We lease office space under operating leases. These leases generally contain fixed contractual rent changes and certain of the leases provide for operating expense reimbursements. We recognize rental expense on operating leases that contain fixed contractual rent changes on a straight line basis over the terms of the respective leases. As of September 30, 2019, we had 31 leases that expire at various dates through 2030. We incurred rental expense for the fiscal years ended September 30, 2019, 2018 and 2017 of \$6,370, \$5,364 and \$4,933, respectively, including non-cash straight line rent expense of \$391, \$201 and \$250, respectively. Rental expense is included in general and administrative expenses in our consolidated statements of comprehensive income.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 11. Commitments (Continued)

The future scheduled minimum lease payments under the terms of these leases as of September 30, 2019 are as follows (per fiscal year ended September 30):

2020	\$ 5,264
2021	5,215
2022	5,293
2023	4,658
2024	4,212
Thereafter	<u>21,286</u>
	<u>\$45,928</u>

Some of the foregoing leases are with related parties. As of September 30, 2019, \$40,853 of our future scheduled minimum lease payments are for our principal executive offices, which are leased from an affiliate of ABP Trust pursuant to a lease agreement that expires in 2030. For more information about these related party leases, see Note 6, *Related Person Transactions*.

In connection with the formation of the Open End Fund in 2018, RMR LLC committed to contribute up to \$100,000 to the Open End Fund when called by the general partner. For additional information regarding this commitment to the Open End Fund, see Note 6, *Related Person Transactions*.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 12. Segment Reporting

We have one reportable business segment, which is RMR LLC. In the tables below, our All Other Operations includes the operations of RMR Inc., RMR Advisors and Tremont Advisors.

	Fiscal Year Ended September 30, 2019		
	RMR LLC(1)	All Other Operations	Total
Revenues:			
Management services	\$178,075	\$ —	\$178,075
Incentive business management fees	120,094	—	120,094
Advisory services	—	3,169	3,169
Total management and advisory services revenues	<u>298,169</u>	<u>3,169</u>	<u>301,338</u>
Reimbursable compensation and benefits	54,816	2,674	57,490
Other client company reimbursable expenses	354,540	—	354,540
Total reimbursable costs	<u>409,356</u>	<u>2,674</u>	<u>412,030</u>
Total revenues	<u>707,525</u>	<u>5,843</u>	<u>713,368</u>
Expenses:			
Compensation and benefits	107,562	6,967	114,529
Equity based compensation	8,862	178	9,040
Separation costs	7,050	—	7,050
Total compensation and benefits expense	<u>123,474</u>	<u>7,145</u>	<u>130,619</u>
General and administrative	25,026	3,680	28,706
Other client company reimbursable expenses	354,540	—	354,540
Transaction and acquisition related costs	698	—	698
Depreciation and amortization	966	51	1,017
Total expenses	<u>504,704</u>	<u>10,876</u>	<u>515,580</u>
Operating income (loss)	202,821	(5,033)	197,788
Interest and other income	7,831	939	8,770
Impairment loss on Tremont Mortgage Trust investment	—	(6,213)	(6,213)
Equity in earnings of investees	—	719	719
Unrealized loss on equity method investment accounted for under the fair value option	<u>(4,700)</u>	<u>—</u>	<u>(4,700)</u>
Income (loss) before income tax expense	205,952	(9,588)	196,364
Income tax expense	—	(27,320)	(27,320)
Net income (loss)	<u>\$205,952</u>	<u>\$(36,908)</u>	<u>\$169,044</u>
Total assets	<u>\$606,844</u>	<u>\$ 61,028</u>	<u>\$667,872</u>

(1) Intersegment revenues of \$3,975 recognized by RMR LLC for services provided to our All Other Operations segment have been eliminated in the consolidated financial statements.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 12. Segment Reporting (Continued)

	Fiscal Year Ended September 30, 2018		
	<u>RMR LLC(1)</u>	<u>All Other Operations</u>	<u>Total</u>
Revenues:			
Management services	\$191,594	\$ —	\$191,594
Incentive business management fees	155,881	—	155,881
Advisory services	—	4,352	4,352
Total management and advisory services revenues	<u>347,475</u>	<u>4,352</u>	<u>351,827</u>
Reimbursable compensation and benefits	50,664	2,488	53,152
Total reimbursable costs	<u>50,664</u>	<u>2,488</u>	<u>53,152</u>
Total revenues	<u>398,139</u>	<u>6,840</u>	<u>404,979</u>
Expenses:			
Compensation and benefits	102,736	6,027	108,763
Equity based compensation	10,310	113	10,423
Separation costs	2,946	784	3,730
Total compensation and benefits expense	<u>115,992</u>	<u>6,924</u>	<u>122,916</u>
General and administrative	23,397	3,752	27,149
Transaction and acquisition related costs	1,555	142	1,697
Depreciation and amortization	1,161	87	1,248
Total expenses	<u>142,105</u>	<u>10,905</u>	<u>153,010</u>
Operating income (loss)	256,034	(4,065)	251,969
Interest and other income	4,170	376	4,546
Tax receivable agreement remeasurement	—	24,710	24,710
Impairment loss on Tremont Mortgage Trust investment	—	(4,359)	(4,359)
Equity in earnings (losses) of investees	33	(611)	(578)
Income before income tax expense	<u>260,237</u>	<u>16,051</u>	<u>276,288</u>
Income tax expense	—	(58,862)	(58,862)
Net income (loss)	<u>\$260,237</u>	<u>\$(42,811)</u>	<u>\$217,426</u>
Total assets	<u>\$443,211</u>	<u>\$ 61,217</u>	<u>\$504,428</u>

(1) Intersegment revenues of \$4,002 recognized by RMR LLC for services provided to our All Other Operations segment have been eliminated in the consolidated financial statements.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 12. Segment Reporting (Continued)

	Fiscal Year Ended September 30, 2017		
	RMR LLC(1)	All Other Operations	Total
Revenues:			
Management services	\$174,887	\$ —	\$174,887
Incentive business management fees	52,407	—	52,407
Advisory services	—	4,102	4,102
Total management and advisory services revenues	<u>227,294</u>	<u>4,102</u>	<u>231,396</u>
Reimbursable compensation and benefits	40,279	53	40,332
Total reimbursable costs	<u>40,279</u>	<u>53</u>	<u>40,332</u>
Total revenues	<u>267,573</u>	<u>4,155</u>	<u>271,728</u>
Expenses:			
Compensation and benefits	89,688	2,937	92,625
Equity based compensation	7,128	—	7,128
Total compensation and benefits expense	<u>96,816</u>	<u>2,937</u>	<u>99,753</u>
General and administrative	23,538	1,651	25,189
Transaction and acquisition related costs	337	8,850	9,187
Depreciation and amortization	1,415	623	2,038
Total expenses	<u>122,106</u>	<u>14,061</u>	<u>136,167</u>
Operating income (loss)	145,467	(9,906)	135,561
Interest and other income	1,130	435	1,565
Equity in losses of investees	—	(206)	(206)
Income (loss) before income tax expense	<u>146,597</u>	<u>(9,677)</u>	<u>136,920</u>
Income tax expense	—	(28,251)	(28,251)
Net income (loss)	<u>\$146,597</u>	<u>\$(37,928)</u>	<u>\$108,669</u>
Total assets	<u>\$308,018</u>	<u>\$ 75,701</u>	<u>\$383,719</u>

(1) Intersegment revenues of \$738 recognized by RMR LLC for services provided to our All Other Operations segment have been eliminated in the consolidated financial statements.

The RMR Group Inc.
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except per share amounts)

Note 13. Selected Quarterly Financial Data (Unaudited)

The following is a summary of our unaudited quarterly results of operations for the fiscal years ended September 30, 2019 and 2018:

	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$280,313(1)	\$130,096	\$143,715	\$159,244
Net income	\$118,080	\$ 18,708	\$ 13,373	\$ 18,883
Net income attributable to The RMR Group Inc. . .	\$ 52,209	\$ 8,168	\$ 5,849	\$ 8,354
Net income attributable to The RMR Group Inc. per common share—diluted	\$ 3.22	\$ 0.50	\$ 0.36	\$ 0.51
Common distributions declared	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35

(1) Includes incentive business management fee revenue of \$120,094.

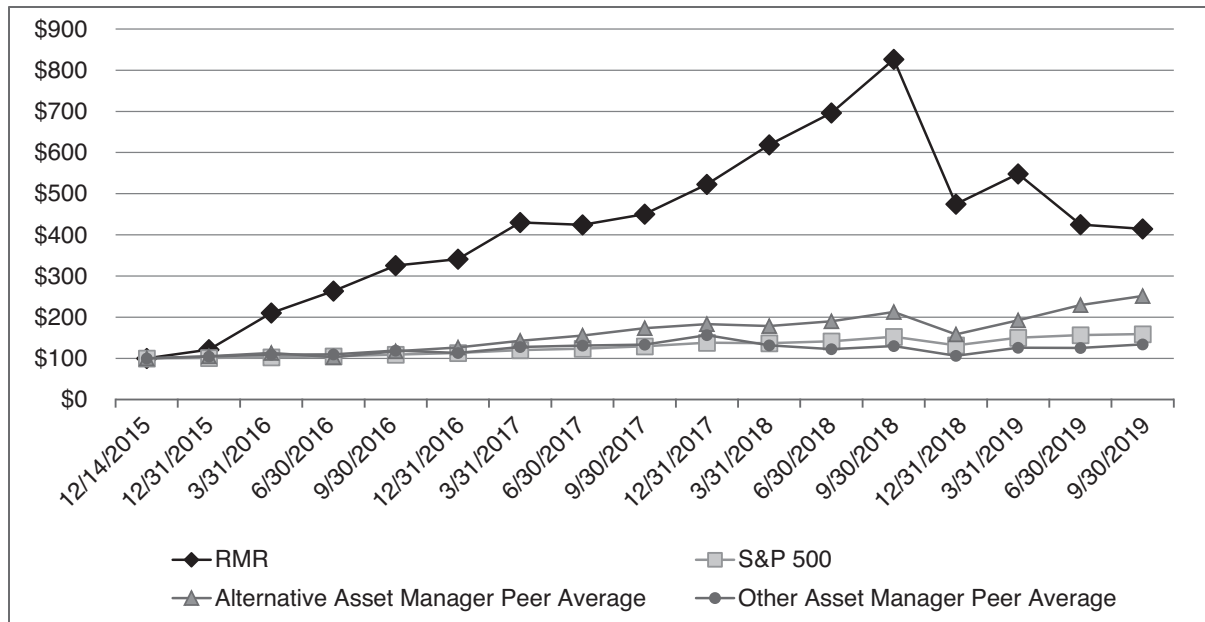
	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$218,541(1)	\$59,281	\$62,084	\$65,073
Net income	\$159,324	\$19,642	\$19,449	\$19,011
Net income attributable to The RMR Group Inc.	\$ 71,120	\$ 8,356	\$ 8,381	\$ 8,184
Net income attributable to The RMR Group Inc. per common share—diluted	\$ 4.39	\$ 0.52	\$ 0.52	\$ 0.50
Common distributions declared	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25

(1) Includes incentive business management fee revenue of \$155,881.

RMR Performance Chart

The graph below shows the cumulative total shareholder returns on our common shares (assuming a \$100 investment on December 14, 2015) as compared with (a) the Standard & Poor's 500 Index and (b) a self-constructed peer group composed of the following alternative asset management companies: Apollo Global Management LLC, Ares Management Corp, The Blackstone Group LP, The Carlyle Group and KKR & Co, Inc. (c) a self-constructed peer group composed of the following Real Estate Managers: Ashford Inc, Brookfield Asset Management, Cohen & Steers Inc and Colony Capital Inc. The companies that comprise the peer group have changed from our 2018 Annual Report to reflect a more closely aligned group of asset managers. The graph assumes reinvestment of all cash distributions.

Note: Bloomberg is the data source.



CORPORATE INFORMATION

EXECUTIVE OFFICES

The RMR Group Inc.
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(617) 796-8390
www.rmrgroup.com

OFFICERS

Adam D. Portnoy
Managing Director, President and
Chief Executive Officer; and
President and Chief Executive Officer
of RMR LLC

Jennifer B. Clark
Managing Director, Executive Vice
President, General Counsel and
Secretary; and
Executive Vice President, General
Counsel and Secretary of
RMR LLC

Matthew P. Jordan
Chief Financial Officer and Treasurer;
and
Executive Vice President, Chief
Financial Officer and Treasurer of
RMR LLC

David M. Blackman
Executive Vice President of
RMR LLC

John G. Murray
Executive Vice President of
RMR LLC

Jonathan M. Pertchik
Executive Vice President of
RMR LLC

DIRECTOR OF INTERNAL AUDIT

Vern D. Larkin

INVESTOR RELATIONS

Michael B. Kodesch

BOARD OF DIRECTORS

Ann Logan*
Independent Director;
Chair of the Board of Trustees of
Bryn Mawr College; retired
executive of Fannie Mae

Rosen Plevneliev*
Independent Director;
Former President of the Republic of
Bulgaria

Walter C. Watkins, Jr.*
Independent Director;
Principal of WCW Enterprises, LLC;
retired executive of Bank One
Corporation

Jennifer B. Clark#
Managing Director;
Executive Vice President, General
Counsel and Secretary of
RMR LLC

Adam D. Portnoy*
Managing Director;
President and Chief Executive Officer
of the Company and RMR LLC

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

COUNSEL

Skadden, Arps, Slate, Meagher &
Flom LLP
500 Boylston Street
Boston, MA 02116

STOCK TRANSFER AGENT AND REGISTRAR

Equiniti Trust Company
EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120-4100
(877) 602-7398
www.shareowneronline.com

ANNUAL MEETING

Our annual meeting of shareholders will be held on Wednesday, March 11, 2020 at 9:30 a.m. at Two Newton Place, 255 Washington Street, Newton, Massachusetts.

AVAILABLE INFORMATION

A copy of our 2019 Annual Report on Form 10-K, including the financial statements and schedules (excluding exhibits), as filed with the Securities and Exchange Commission, can be obtained without charge through our website at www.rmrgroup.com or by writing to Investor Relations at our executive offices address.

STOCK MARKET DATA

Our common shares of beneficial interest are traded on the Nasdaq under the symbol RMR. The following table sets forth the high and low sales prices of our common shares in 2018 and 2019 as reported on the Nasdaq composite tape:

Quarter Ended	High	Low
December 31, 2017	\$72.45	\$56.10
March 31, 2018 . . .	\$82.20	\$69.50
June 30, 2018 . . .	\$97.30	\$79.25
September 30, 2018	\$92.59	\$52.57
December 31, 2018	\$76.42	\$52.96
March 31, 2019 . . .	\$63.88	\$42.14
June 30, 2019 . . .	\$50.19	\$43.34
September 30, 2019	\$48.95	\$43.78

As of January 9, 2020, there were 2,629 holders of record of our common shares.

The closing price of our common shares as reported on the Nasdaq composite tape on January 9, 2020 was \$43.80

* Member of Audit, Compensation and Nominating and Governance Committees

+ Member of Compensation and Nominating and Governance Committees

Member of Nominating and Governance Committee

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