Chatham Lodging Trust

2019 ANNUAL REPORT

Chatham Lodging Trust

is a self-advised, publicly-traded real estate investment trust focused primarily on investing in upscale extended-stay hotels and premium-branded, select-service hotels. Our high quality hotels are located in major markets with high barriers to entry, near primary demand generators for both business and leisure guests. Our primary objective is to generate attractive returns for our shareholders through investing in hotel properties at prices that provide strong returns on invested capital, paying meaningful dividends and generating long-term value appreciation.

Dear Shareholder,

I hope this letter finds each of our shareholders, interested parties and employees well. As we turn the page and enter a new decade, Chatham will be celebrating the tenth anniversary of its initial public offering in April, and we appreciate your support over the past ten years as we look forward to further building Chatham into the premier owner of upscale, extended-stay hotels and premium-branded, select-service hotels.

Jeffrey H. Fisher
Chairman, Chief Executive Officer and President

Following RevPAR growth of almost 1 percent in 2018, our RevPAR declined 1.6 percent in 2019 as we absorbed the impact of new supply. We faced tough comparisons to 2018 given the significant amount of room revenue related to the north Boston gas explosions and border patrol demand in San Diego. Our RevPAR decline of 1.6 percent was at the lower end of our guidance range of minus 1.5 percent to plus 0.5 percent.

I am pleased that our Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and adjusted Funds from Operation (FFO), despite the sale of two hotels which were included in our initial guidance, finished towards the upper end of our guidance range, driven by incredible margin performance. Despite the 1.6 percent decline in RevPAR, adjusted EBITDA was only down 0.4 percent.

Some other noteworthy accomplishments in 2019 include:

- generated a 22 percent increase in other income of $3.0 million due primarily to the continued improvement in parking revenue and room-cancellation revenue collections
- gained RevPAR index of approximately 60 basis points
- reduced leverage to 34.1 percent from 34.7 percent based on the ratio of Chatham's net debt to investment in hotels, at cost
- commenced construction on the company's first ground-up development since its initial public

offering in 2010 in the Warner Center submarket of Los Angeles, Calif.

- raised approximately $7 million through the company's share plans with an average issuance price of over $20 per share, using proceeds to partially fund development
- sold two, non-core hotels for approximately $10 million at an approximate six percent net operating income capitalization rate
- invested almost $36 million in capital improvements at existing hotels

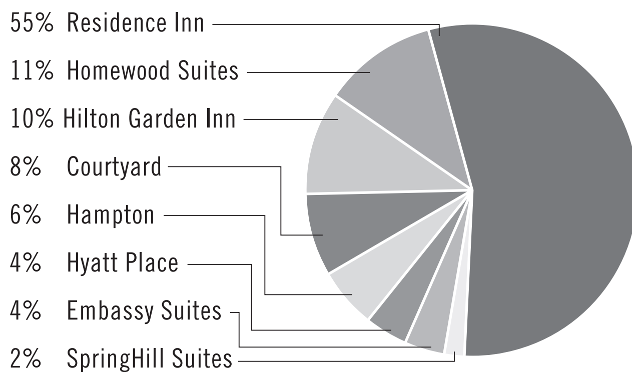
As evidenced by some of these operating accomplishments in a challenging year, we firmly believe we have the best-in-class operating platform, and our collaborative efforts with Island Hospitality really have paid off over the last couple of years. We are positioned exquisitely to quickly roll out revenue enhancement and expense saving initiatives, properly assess their impact and decide whether to move forward, tweak or cancel the initiatives. I'm particularly pleased with the results from certain programs and innovative tools that have been implemented to date and will be rolled out portfolio-wide moving forward. These initiatives and results therefore drive home the huge benefit we derive from working closely together.

Most industry pundits would describe the lodging industry in 2019 and 2020 as late cycle, where Revenue per Available Room (RevPAR) growth is minimal, flat or negative and new supply is near peak growth rates. Industry RevPAR growth was 0.9 percent in 2019, and STR is projecting 2020 industry RevPAR growth to be flat and down 1.3 percent for the upscale sector.

On the supply and demand fronts, both were up 2.0 percent in 2019 and are projected to be at similar levels in 2020. New supply growth of approximately 2 percent is well below historical growth averages. However, most new supply has been in the upscale sector, which is the sector where most of our hotels are classified. Within the upscale sector, new supply growth peaked at 6.0 percent in 2017, but is still projected to be approximately 5 percent in 2020. The silver lining is that within our competitive market tracts, new supply growth has been and should continue to be less than industry-wide upscale sector growth. This should benefit our performance as the new supply is absorbed.

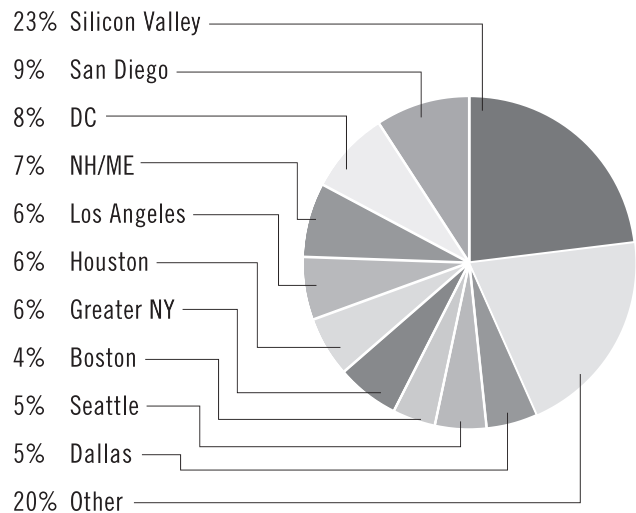
To reiterate, given the state of the industry, including dealing with the unknown effects from the COVID-19 pandemic, I certainly am comforted that we have the platform to effectuate change and react quickly to changing circumstances. In our space, pennies matter, and we will continue to work closely

Chatham's Brand Composition



Based on the percentage of hotel EBITDA for the twelve months ended December 31, 2019

Chatham's Top Markets



Based on the percentage of hotel EBITDA for the twelve months ended December 31, 2019

with Island Hospitality to maximize our top-line performance and minimize any margin erosion.

Our outlook for 2020 is muted, with estimated RevPAR growth of minus 1.25 percent to plus 0.25 percent and margin erosion of approximately 120 basis points, driving a decline in Adjusted FFO per Share to $1.76 at the midpoint of our guidance from $1.85 in 2019. Our margins continue to be adversely impacted by rising wage and benefit costs, which is the primary operating focus for us in 2020.

We will continue to explore asset sales with the intention of using those proceeds to invest in acquisitions or potential developments in an effort to grow Adjusted EBITDA and Adjusted FFO. We will look at any value-added opportunities, and as we've stated previously, we may develop an additional hotel or two over the next few years if the returns generate the proper risk-adjusted return compared to buying a hotel of similar quality in that same market.

Additionally, we will add value by converting existing space in our Residence Inn San Diego Mission Valley and the Residence Inn Anaheim Garden Grove into income-producing assets like we did in late 2018 with the SpringHill Suites Savannah where we converted a seldom-used meeting space into a highly profitable bar concept called Toasted Barrel. In 2019, Toasted Barrel produced revenue of approximately $350 thousand and profit of approximately $85 thousand, a noteworthy 24 percent margin and a return on investment of over 20 percent in year one. Those results are quite an accomplishment.

Thank you for your support. We truly appreciate it.

Sincerely,

Jeffrey H. Fisher
Chairman, Chief Executive Officer and President
March 4, 2020

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from __________ to __________

Commission File Number: 001-34693

CHATHAM LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland	27-1200777
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
222 Lakeview Avenue, Suite 200 West Palm Beach, Florida	33401
(Address of Principal Executive Offices)	(Zip Code)

(561) 802-4477

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Shares of Beneficial Interest, par value $0.01 per share	CLDT	New York Stock Exchange

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		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 pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the 45,889,736 common shares of beneficial interest held by non-affiliates of the registrant was $856,939,318 based on the closing sale price on the New York Stock Exchange for such common shares of beneficial interest as of June 30, 2019.

The number of common shares of beneficial interest outstanding as of February 26, 2020 was 46,956,110

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2020 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission on or before May 13, 2020) are incorporated by reference into this Annual Report on Form 10-K in response to Part III hereof.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 as amended (the "Exchange Act"), and as such may involve known and unknown risks, uncertainties, assumptions and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words, such as "intend," "plan," "may," "should," "will," "project," "estimate," "anticipate," "believe," "expect," "continue," "potential," "opportunity," or similar expressions, whether in the negative or affirmative. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business and investment strategy;
- our forecasted operating results;
- completion of hotel acquisitions;
- completion of hotel developments;
- our ability to obtain future financing arrangements;
- our expected leverage levels;
- our understanding of our competition;
- market and lodging industry trends and expectations;
- our investment in joint ventures;
- anticipated capital expenditures; and
- our ability to maintain our qualification as a real estate investment trust ("REIT") for federal income tax purposes.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information available to us at the time the forward-looking statements are made. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, prospects, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks when you make an investment decision concerning our common shares. Additionally, the following factors could cause actual results to vary from our forward-looking statements:

- the factors included in this report, including those set forth under the sections titled “Business,” Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in other reports that we file with the United States Securities and Exchange Commission ("SEC"), or in other documents that we publicly disseminate;
- general volatility of the financial markets and the market price of our securities;
- performance of the lodging industry in general;
- business interruptions due to cyber attacks;
- impacts on our business of a prolonged government shutdown;
- decreased international travel because of geopolitical events, including terriorism, outbreaks of disease and current U.S. government polices;
- changes in our business or investment strategy;
- availability, terms and deployment of capital;
- availability of and our ability to attract and retain qualified personnel;
- our leverage levels;
- our capital expenditures;
- changes in our industry and the markets in which we operate, interest rates or the general U.S. or international economy;
- our ability to maintain our qualification as a REIT for federal income tax purposes; and
- the degree and nature of our competition.

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

PART I

Item 1. Business

Dollar amounts presented in this Item 1 are in thousands, except per share data.

Overview

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

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

In January 2014, the Company established a $25 million dividend reinvestment and stock purchase plan (the "Prior DRSPP"). We filed a new $50 million shelf registration statement for the dividend reinvestment and stock purchase plan (the "New DRSPP" and together with the Prior DRSPP, the "DRSPPs") on December 28, 2017 to replace the prior program. Under the DRSPPs, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company's common shares. Shareholders may also make optional cash purchases of the Company's common shares subject to certain limitations detailed in the prospectuses for the DRSPPs. During the year ended December 31, 2019, we issued 259,954 shares under the New DRSPP at a weighted average price of $20.09, which generated $5.2 million of proceeds. As of December 31, 2019 and December 31, 2018, respectively, we had issued 1,768,000 and 1,508,046 shares under the DRSPPs at a weighted average price of $21.33 and $21.55 per share, respectively. As of December 31, 2019, there were common shares having a maximum aggregate sales price of approximately $27.9 million available for issuance under the New DRSPP.

In January 2014, the Company established an At the Market Equity Offering ("Prior ATM Plan") whereby, from time to time, we may publicly offer and sell our common shares having an aggregate maximum offering price of up to $50 million by means of ordinary brokers' transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933. We filed a $100 million registration statement for a new ATM program (the "ATM Plan" and together with the Prior ATM Plan, the "ATM Plans") on December 28, 2017 to replace the prior program. At the same time, the Company entered into sales agreements with Cantor Fitzgerald & Co. ("Cantor"), Barclays Capital Inc. ("Barclays"), Robert W. Baird & Co. Incorporated ("Baird"), BTIG, LLC ("BTIG"), Citigroup Global Markets Inc. ("Citigroup"), Stifel, Nicolaus & Company, Incorporated ("Stifel") and Wells Fargo Securities, LLC ("Wells Fargo") as sales agents. During the year ended December 31, 2019, we issued 103,590 shares under the ATM Plan at a weighted average price of $20.05, which generated $2.1 million of proceeds. As of December 31, 2019 and December 31, 2018, respectively, we had issued 2,602,260 and 2,498,670 shares under the ATM Plans at a weighted average price of $21.76 and $21.83 per share, respectively, in addition to the offerings discussed above. As of December 31, 2019, there were common shares having a maximum aggregate sales price of approximately $90.4 million available for issuance under the ATM Plan.

As of December 31, 2019, the Company owned 40 hotels with an aggregate of 6,092 rooms located in 15 states and the District of Columbia. As of December 31, 2019, the Company also (i) held a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with affiliates of Colony Capital, Inc. ("CLNY"), which owns 46 hotels acquired from a joint venture (the "Innkeepers JV") between the Company and Cerberus Capital Management (“Cerberus”), comprising an aggregate of 5,948 rooms and (ii) held a 10.0% noncontrolling interest in a separate joint venture (the "Inland JV") with CLNY, which owns 48 hotels acquired from Inland American Real Estate Trust, Inc. ("Inland"), comprising an aggregate of 6,402 rooms. We sometimes use the term "JVs", which refers collectively to the NewINK JV and the Inland JV.

To qualify as a REIT, the Company cannot operate its hotels. Therefore, the Operating Partnership and its subsidiaries lease our wholly owned hotels to taxable REIT subsidiary lessees (“TRS Lessees”), which are wholly owned by the Company’s taxable REIT subsidiary (“TRS”) holding company. The Company indirectly (i) owns its 10.3% interest in the 46 NewINK JV hotels and (ii) owns its 10.0% interest in the 48 Inland JV hotels through the Operating Partnership. All of the NewINK JV hotels and Inland JV hotels are leased to TRS Lessees, in which the Company indirectly owns noncontrolling interests through its TRS holding company. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation.

The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of December 31, 2019, Island Hospitality Management Inc. (“IHM”), which is 52.5% owned by Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, managed all 40 of the Company’s wholly owned hotels. As of December 31, 2019, all of the NewINK JV hotels were managed by IHM. As of December 31, 2019, 34 of the Inland JV hotels were managed by IHM and 14 hotels were managed by Marriott International, Inc. ("Marriott").

As of December 31, 2019, our wholly owned hotels include upscale extended-stay hotels that operate under the Residence Inn by Marriott® brand (sixteen hotels) and Homewood Suites by Hilton® brand (nine hotels), as well as premium-branded select-service hotels that operate under the Courtyard by Marriott® brand (five hotels), the Hampton Inn or Hampton Inn and Suites by Hilton® brand (three hotels), the Hilton Garden Inn by Hilton® brand (three hotels), the SpringHill Suites by Marriott® brand (one hotel), the Hyatt Place® brand (two hotels) and all suite hotels that operate under the upper scale extended stay Embassy Suites brand® (one hotel).

We primarily invest in upscale extended-stay hotels such as Homewood Suites by Hilton® and Residence Inn by Marriott®. We also invest in upscale or upper upscale all suite hotels such as SpringHill Suites by Marriott® or Embassy Suites.® Extended-stay and all-suite hotels typically have the following characteristics:

- principal customer base includes business travelers, whether short-term transient travelers or those on extended assignments and corporate relocations;
- services and amenities include complimentary breakfast and evening hospitality hour, high-speed internet access, in-room movie channels, limited meeting space, daily linen and room cleaning service, 24-hour front desk, guest grocery services, and an on-site maintenance staff; and
- physical facilities include large suites, quality construction, full separate kitchens in each guest suite or suites that include a wet bar, refrigerator and microwave, quality room furnishings, pool, and exercise facilities.

Additionally, we invest in premium-branded select-service hotels such as Courtyard by Marriott®, Hampton Inn®, Hampton Inn and Suites by Hilton®, Hyatt Place® and Hilton Garden Inn by Hilton®. The service and amenity offerings of these hotels typically include complimentary breakfast or a smaller for pay breakfast or evening dining option, high-speed internet access, local calls, in-room movie channels, and daily linen and room cleaning service.

Financial Information About Industry Segments

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

Business Strategy

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

- *Disciplined acquisition of hotel properties:* We invest primarily in premium-branded upscale extended-stay and select-service hotels with a focus on the 25 largest metropolitan markets in the United States. We focus on acquiring hotel properties at prices below replacement cost in markets that have strong demand generators and where we expect demand growth will outpace new supply. We also seek to acquire properties that we believe are undermanaged or undercapitalized.
- *Opportunistic hotel repositioning:* We employ value-added strategies, such as re-branding, renovating, expanding or changing management, when we believe such strategies will increase the operating results and values of the hotels we acquire.
- *Aggressive asset management:* Although as a REIT we cannot operate our hotels, we proactively manage our third-party hotel managers in seeking to maximize hotel operating performance. Our asset management activities seek to ensure that our third-party hotel managers effectively utilize franchise brands' marketing programs, develop effective sales management policies and plans, operate properties efficiently, control costs, and develop operational initiatives for our hotels that increase guest satisfaction. As part of our asset management activities, we regularly review opportunities to reinvest in our hotels to maintain quality, increase long-term value and generate attractive returns on invested capital.
- *Selective hotel development:* We may consider developing a limited number of hotels in cases where we believe newly developed hotels will generate attractive returns and enhance the quality of our hotel portfolio.
- *Flexible selection of hotel management companies*: We are flexible in our selection of hotel management companies and select managers that we believe will maximize the performance of our hotels. We utilize independent management companies, including IHM, a hotel management company 52.5% owned by Mr. Fisher that as of December 31, 2019, managed all 40 of our wholly owned hotels, all of the hotels owned by the NewINK JV and 34 hotels owned by the Inland JV, with 14 hotels managed by Marriott. We believe this strategy increases the universe of potential acquisition opportunities we can consider because many hotel properties are encumbered by long-term management contracts.
- *Selective investment in hotel debt:* We may consider selectively investing in debt collateralized by hotel property if we believe we can foreclose on or acquire ownership of the underlying hotel property in the relative near term. We do not intend to invest in any debt where we do not expect to gain ownership of the underlying property or to originate any debt financing.

We plan to maintain a prudent capital structure and intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) at a level that will be similar to the levels at which we have operated in the past. A subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this target. Our debt coverage ratios currently are favorable and, as a result, we are comfortable in this leverage range and believe we have the capacity and flexibility to take advantage of acquisition opportunities as they arise. At December 31, 2019, our leverage ratio was approximately 34.1 percent, which decreased from 34.7 percent at December 31, 2018. Over time, we intend to finance our growth with free cash flow, debt and issuances of common shares and/or preferred shares. Our debt may include mortgage debt collateralized by our hotel properties and unsecured debt.

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

Competition

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

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

Seasonality

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

Regulation

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

Americans with Disabilities Act

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

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

Environmental Regulations

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

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

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

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

Tax Status

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

As a REIT, we generally will not be subject to federal income tax on our REIT taxable income that we distribute to our shareholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If we fail to qualify for taxation as a REIT in any taxable year and do not qualify for certain statutory relief provisions, our income for that year will be taxed at regular corporate rates, and we will be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and assets and to federal income and excise taxes on our undistributed income. Additionally, any income earned by our TRS Lessees will be fully subject to federal, state and local corporate income tax.

During the third quarter of 2018, we were notified that the tax return of our TRS was going to be examined by the Internal Revenue Service for the tax year ended December 31, 2016. The examination remains open. We believe we do not need to record a liability related to matters contained in the tax period open to examination. However, should we experience an unfavorable outcome in the matter, such outcome could have a material impact on our results of operations, financial position and cash flows.

Hotel Management Agreements

The management agreements with IHM have an initial term of five years and will automatically renew for two successive five-year periods unless IHM provides written notice no later than 90 days prior to the then current term's expiration date of their intent not to renew. The IHM management agreements provide for early termination at the Company's option upon sale of any IHM-managed hotel for no termination fee, with six months advance notice. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels. Base management fees are calculated as a percentage of the hotel's gross room revenue. If certain financial thresholds are met or exceeded, an incentive management fee is calculated as 10% of the hotel's net operating income less fixed costs, base management fees and a specified return threshold. The incentive management fee is capped at 1% of gross hotel revenues for the applicable calculation.

As of December 31, 2019, terms of our management agreements for our 40 wholly owned hotels were as follows (dollars are not in thousands):

Property	Management Company	Base Management Fee	Monthly Accounting Fee	Monthly Revenue Management Fee	Incentive Management Fee Cap
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Minneapolis-Mall of America	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Nashville-Brentwood	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Dallas-Market Center	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Hartford-Farmington	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Orlando-Maitland	IHM	3.0 %	1,200	1,000	1.0 %
Hampton Inn & Suites Houston-Medical Center	IHM	3.0 %	1,000	1,000	1.0 %
Residence Inn Long Island Holtsville	IHM	3.0 %	1,000	1,000	1.0 %
Residence Inn White Plains	IHM	3.0 %	1,000	750	1.0 %
Residence Inn New Rochelle	IHM	3.0 %	1,000	750	1.0 %
Residence Inn Garden Grove	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Mission Valley	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton San Antonio River Walk	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Washington DC	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Tysons Corner	IHM	3.0 %	1,200	1,000	1.0 %
Hampton Inn Portland Downtown	IHM	3.0 %	1,000	550	1.0 %
Courtyard Houston	IHM	3.0 %	1,000	550	1.0 %
Hyatt Place Pittsburgh North Shore	IHM	3.0 %	1,500	1,000	1.0 %
Hampton Inn Exeter	IHM	3.0 %	1,200	1,000	1.0 %
Hilton Garden Inn Denver Tech	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn Bellevue	IHM	3.0 %	1,200	1,000	1.0 %
Springhill Suites Savannah	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Silicon Valley I	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Silicon Valley II	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn San Mateo	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Mountain View	IHM	3.0 %	1,200	1,000	1.0 %
Hyatt Place Cherry Creek	IHM	3.0 %	1,500	1,000	1.0 %
Courtyard Addison	IHM	3.0 %	1,500	1,000	1.0 %
Courtyard West University Houston	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn West University Houston	IHM	3.0 %	1,200	1,000	1.0 %
Hilton Garden Inn Burlington	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn San Diego Gaslamp	IHM	3.0 %	1,500	1,000	1.0 %
Hilton Garden Inn Marina del Rey	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn Dedham	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Il Lugano	IHM	3.0 %	1,500	1,000	1.0 %
Hilton Garden Inn Portsmouth	IHM	3.0 %	1,500	1,000	1.0 %
Courtyard Summerville	IHM	3.0 %	1,500	1,000	1.0 %
Embassy Suites Springfield	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn Summerville	IHM	3.0 %	1,500	1,000	1.0 %
Courtyard Dallas	IHM	3.0 %	1,500	1,000	1.0 %

Management fees totaled approximately $10.8 million, $10.8 million and $9.9 million, respectively, for the years ended December 31, 2019, 2018 and 2017. Incentive management fees, which are included in management fees, for the years ended December 31, 2019, 2018 and 2017 were $0.1 million, $0.1 million and $0.2 million, respectively.

Hotel Franchise Agreements

The fees associated with the franchise agreements are calculated as a specified percentage of the hotel's gross room revenue. Terms of the Company's franchise agreements for its 40 wholly owned hotels as of December 31, 2019 were as follows:

Property	Franchise Company	Franchise/ Royalty Fee	Marketing/ Program Fee	Expiration
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	Promus Hotels, Inc.	4.0 %	4.0 %	2025
Homewood Suites by Hilton Minneapolis-Mall of America	Promus Hotels, Inc.	4.0 %	4.0 %	2025
Homewood Suites by Hilton Nashville-Brentwood	Promus Hotels, Inc.	4.0 %	4.0 %	2025
Homewood Suites by Hilton Dallas-Market Center	Promus Hotels, Inc.	4.0 %	4.0 %	2025
Homewood Suites by Hilton Hartford-Farmington	Promus Hotels, Inc	4.0 %	4.0 %	2025
Homewood Suites by Hilton Orlando-Maitland	Promus Hotels, Inc.	4.0 %	4.0 %	2025
Hampton Inn & Suites Houston-Medical Center	Hampton Inns Franchise LLC	5.0 %	4.0 %	2035
Residence Inn Long Island Holtsville	Marriott International, Inc.	5.5 %	2.5 %	2025
Residence Inn White Plains	Marriott International, Inc.	5.5 %	2.5 %	2030
Residence Inn New Rochelle	Marriott International, Inc.	5.5 %	2.5 %	2030
Residence Inn Garden Grove	Marriott International, Inc.	5.0 %	2.5 %	2031
Residence Inn Mission Valley	Marriott International, Inc.	5.0 %	2.5 %	2031
Homewood Suites by Hilton San Antonio River Walk	Promus Hotels, Inc.	4.0 %	4.0 %	2026
Residence Inn Washington DC	Marriott International, Inc.	5.5 %	2.5 %	2033
Residence Inn Tysons Corner	Marriott International, Inc.	5.0 %	2.5 %	2031
Hampton Inn Portland Downtown	Hampton Inns Franchise LLC	6.0 %	4.0 %	2032
Courtyard Houston	Marriott International, Inc.	5.5 %	2.0 %	2030
Hyatt Place Pittsburgh North Shore	Hyatt Hotels, LLC	5.0 %	3.5 %	2030
Hampton Inn Exeter	Hampton Inns Franchise LLC	6.0 %	4.0 %	2031
Hilton Garden Inn Denver Tech	Hilton Garden Inns Franchise LLC	5.5 %	4.3 %	2028
Residence Inn Bellevue	Marriott International, Inc.	5.5 %	2.5 %	2033
Springhill Suites Savannah	Marriott International, Inc.	5.0 %	2.5 %	2033
Residence Inn Silicon Valley I	Marriott International, Inc.	5.5 %	2.5 %	2029
Residence Inn Silicon Valley II	Marriott International, Inc.	5.5 %	2.5 %	2029
Residence Inn San Mateo	Marriott International, Inc.	5.5 %	2.5 %	2029
Residence Inn Mountain View	Marriott International, Inc.	5.5 %	2.5 %	2029
Hyatt Place Cherry Creek	Hyatt Hotels, LLC	3% to 5%	3.5 %	2034
Courtyard Addison	Marriott International, Inc.	5.5 %	2.0 %	2029
Courtyard West University Houston	Marriott International, Inc.	5.5 %	2.0 %	2029
Residence Inn West University Houston	Marriott International, Inc.	6.0 %	2.5 %	2024
Hilton Garden Inn Burlington	Hilton Garden Inns Franchise LLC	5.5 %	4.3 %	2029
Residence Inn San Diego Gaslamp	Marriott International, Inc.	6.0 %	2.5 %	2035
Hilton Garden Inn Marina del Rey	Hilton Franchise Holding LLC	3% to 5.5%	4.3 %	2030
Residence Inn Dedham	Marriott International, Inc.	6.0 %	2.5 %	2030
Residence Inn Il Lugano	Marriott International, Inc.	3% to 6%	2.5 %	2045
Hilton Garden Inn Portsmouth	Hilton Garden Inns Franchise LLC	5.5 %	4.0 %	2037
Courtyard Summerville	Marriott International, Inc.	6.0 %	2.5 %	2037
Embassy Suites Springfield	Hilton Franchise Holding LLC	5.5 %	4.0 %	2037
Residence Inn Summerville	Marriott International, Inc.	6.0 %	2.5 %	2038
Courtyard Dallas	Marriott International, Inc.	4% to 6%	2.0 %	2038

Franchise and marketing/program fees totaled approximately $25.9 million, $24.9 million and $23.2 million, respectively, for the years ended December 31, 2019, 2018 and 2017.

Operating Leases

The Courtyard Altoona hotel was sold on May 7, 2019. The Courtyard Altoona hotel was subject to a ground lease with an expiration date of April 30, 2029 and we had an extension option of up to 12 additional terms of five years each. Monthly payments were determined by the quarterly average room occupancy of the hotel. Rent was equal to approximately $8,400 per month when monthly occupancy was less than 85% and could increase up to approximately $20,000 per month if occupancy was 100%, with minimum rent increased by two and one-half percent (2.5%) on an annual basis.

The Residence Inn San Diego Gaslamp hotel is subject to a ground lease with an expiration of January 31, 2065 and we have an extension option of up to three additional terms of ten years each. Monthly payments are currently approximately $40,300 per month and increase 10% every five years. The hotel is subject to supplemental rent payments annually calculated as 5% of gross revenues during the applicable lease year, minus 12 times the monthly base rent scheduled for the lease year.

The Residence Inn New Rochelle hotel is subject to an air rights lease and a garage lease, each of which expires on December 1, 2104. The lease agreements with the City of New Rochelle cover the space above the parking garage that is occupied by the hotel as well as 128 parking spaces in a parking garage that is attached to the hotel. The annual base rent for the garage lease is the hotel's proportionate share of the city's adopted budget for the operations, management and maintenance of the garage and established reserves to fund for the cost of capital repairs. Aggregate rent for 2019 under these leases amounted to approximately $29,000 per quarter.

The Hilton Garden Inn Marina del Rey hotel is subject to a ground lease with an expiration of December 31, 2067. Minimum monthly payments are currently approximately $47,500 per month and a percentage rent payment equal to 5% to 25% of gross income based on the type of income less the minimum rent is due in arrears.

The Company entered into a corporate office lease in September 2015. The lease is for a term of 11 years and includes a 12-month rent abatement period and certain tenant improvement allowances. The Company has a renewal option of up to two successive terms of five years each. The Company shares the space with related parties and is reimbursed for the pro-rata share of rentable space occupied by the related parties.

The Company is the lessee under ground, air rights, garage and office lease agreements for certain of its properties, all of which qualify as operating leases as of December 31, 2019. The leases typically provide multi-year renewal options to extend term as lessee at the Company's option. Option periods are included in the calculation of the lease obligation liability only when options are reasonably certain to be exercised.

In calculating the Company's lease obligations under the various leases, the Company uses discount rates estimated to be equal to what the Company would have to pay to borrow on a collateralized basis over a similar term, for an amount equal to the lease payments, in a similar economic environment.

The following table includes information regarding the Company's leases for which it is the lessee, as of December 31, 2019, for each of the next five calendar years and thereafter (in thousands):

Total Future Lease Payments

	Amount
2020	$ 2,027
2021	2,051
2022	2,071
2023	2,093
2024	2,115
Thereafter	68,906
Total lease payments	**$ 79,263**

Employees

As of February 26, 2020, we had 39 employees, 32 of which are shared with or allocated to the NewINK JV, Inland JV and Castleblack Owner Holding, LLC ("Castleblack"), an entity which is 2.5% owned by Mr. Fisher. All persons employed in the day-to-day operations of our hotels are employees of the management companies engaged by our TRS Lessees to operate such hotels. None of our employees are represented by a collective bargaining agreement, however, certain hotel level employees of IHM are represented under a collective bargaining agreement.

Additional Material U.S. Federal Income Tax Considerations

The following is a summary of certain additional material federal income tax considerations with respect to the ownership of our shares of beneficial interest. This summary supplements and should be read together with "Material U.S. Federal Income Tax Considerations" in the prospectus dated January 4, 2017 and filed as part of our registration statement on Form S-3ASR (No. 333-215418).

Tax Law Changes

The Tax Cuts and Jobs Act ("TCJA") made many significant changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their shareholders, and may lessen the relative competitive advantage of operating as a REIT rather than as a C corporation. Pursuant to the TCJA, as of January 1, 2018, (1) the federal income tax rate applicable to corporations is reduced to 21%, (2) the highest marginal individual income tax rate is reduced to 37% (through taxable years beginning before 2026), (3) the corporate alternative minimum tax is repealed, and (4) the backup withholding rate for U.S. shareholders is reduced to 24%. In addition, for taxable years beginning before 2026 individuals, estates and trusts may deduct up to 20% of certain pass-through income, including ordinary REIT dividends that are not "capital gain dividends" or "qualified dividend income," subject to certain limitations. For taxpayers qualifying for the full deduction, the effective maximum tax rate on ordinary REIT dividends would be 29.6% (through taxable years beginning before 2026). The maximum rate of withholding with respect to our distributions to non-U.S. shareholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests is also reduced from 35% to 21%. The deduction of net interest expense is limited for all businesses; provided that certain businesses, including real estate businesses, may elect not to be subject to such limitations and instead to depreciate their real property related assets over longer depreciable lives. To the extent that our TRS or any other TRS we form has interest expense that exceeds its interest income, the net interest expense limitation could potentially apply to such TRS. The reduced corporate tax rate will apply to our TRS and any other TRS we form.

We urge you to consult your tax advisors regarding the impact of the TCJA on the purchase, ownership and sale of our shares of beneficial interest.

Available Information

Our Internet website is www.chathamlodgingtrust.com. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports on Forms 3, 4 and 5 and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. All reports that we have filed with the SEC, including this annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, can also be obtained free of charge from the SEC's website www.sec.gov. In addition, our website includes corporate governance information, including the charters for committees of our Board of Trustees, our Corporate Governance Guidelines, Conflict of Interest Policy and our Code of Business Conduct. This information is available in print to any shareholder who requests it by writing to Investor Relations, Chatham Lodging Trust, 222 Lakeview Avenue, Suite 200, West Palm Beach, FL 33401. The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings that we make with the SEC.

Item 1A. Risk Factors

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

Risks Related to Our Business

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

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

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

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

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

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

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

The success of our growth strategy depends on access to capital through use of excess cash flow, borrowings or subsequent issuances of common shares or other securities. Acquisitions of new hotel properties will require significant additional capital and existing hotels (including those owned through joint ventures) require periodic capital improvement initiatives to remain competitive. We may not be able to fund acquisitions or capital improvements solely from cash provided from our operating activities because we must distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding any net capital gains) each year to satisfy the requirements for qualification as a REIT for federal income tax purposes. As a result, our ability to fund capital expenditures for acquisitions through retained earnings is very limited. Our ability to grow through acquisitions of hotels will be limited if we cannot obtain satisfactory debt or equity financing, which will depend on capital markets conditions. We cannot assure you that we will be able to obtain additional equity or debt financing or that we will be able to obtain such financing on favorable terms.

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

We will have broad authority to invest the net proceeds of any offering of our securities in any real estate investments that we may identify in the future, or to repay debt, or for other corporate purposes and we may use those proceeds to make investments with which you may not agree. In addition, our investment policies may be amended or revised from time to time at the discretion of our Board of Trustees, without a vote of our shareholders. These factors will increase the uncertainty, and thus the risk, of investing in our common shares. Our failure to apply the net proceeds of any offering effectively or to find suitable hotel properties to acquire in a timely manner or on acceptable terms could result in returns that are substantially below expectations or result in losses.

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

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

To maintain our qualification as a REIT under the Code, third parties must operate our hotels. We lease each of our hotels to our TRS Lessees. Our TRS Lessees, in turn, have entered into management agreements with third party management companies to operate our hotels. While we expect to have some input on operating decisions for those hotels leased by our TRS Lessees and operated under management agreements, we have less control than if we were managing the hotels ourselves. Even if we believe that our hotels are not being operated efficiently, we may not be able to require an operator to change the way it operates our hotels. If this is the case, we may decide to terminate the management agreement and potentially incur costs associated with the termination. Additionally, Mr. Fisher, our Chairman and Chief Executive Officer, controls IHM, a hotel management company that, as of December 31, 2019, managed 40 of our hotels, all of the 46 hotels owned by the NewINK JV, and 34 of the hotels owned by the Inland JV, and may manage additional hotels that we acquire in the future. See "There may be conflicts of interest between us and affiliates owned by our Chief Executive Officer" below.

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

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

The management of the hotels in our portfolio is currently concentrated in one hotel management company.

As of December 31, 2019, IHM managed all 40 of our wholly owned hotels, as well as all of the 46 hotels owned by the NewINK JV and 34 of the 48 hotels owned by the Inland JV. As a result, a substantial portion of our revenues is generated by hotels managed by IHM. This significant concentration of operational risk in one hotel management company makes us more vulnerable economically than if our hotel management was more diversified among several hotel management companies. Any adverse developments in IHM's business and affairs, financial strength or ability to operate our hotels efficiently and effectively could have a material adverse effect on our business, financial condition, or results of operations and our ability to make distributions to our shareholders. We cannot provide assurance that IHM will satisfy its obligations to us or effectively and efficiently operate out hotel properties.

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

Our hotels operate under franchise agreements, and we may become subject to the risks that are found in concentrating our hotel properties in one or several franchise brands. Our hotel operators must comply with operating standards and terms and conditions imposed by the franchisors of the hotel brands under which our hotels operate. Pursuant to certain of the franchise agreements, certain upgrades are required approximately every six years, and the franchisors may also impose upgraded or new brand standards, such as substantially upgrading the bedding, enhancing the complimentary breakfast or increasing the value of guest awards under its 'frequent guest' program, which can add substantial expense for the hotel. The franchisors also may require us to make certain capital improvements to maintain the hotel in accordance with system standards, the cost of which can be substantial and may reduce cash available for distribution to our shareholders.

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

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

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

As a REIT, we are required to distribute at least 90% of our REIT taxable income each year to our shareholders (determined without regard to the deduction for dividends paid and excluding any net capital gains). In the event of downturns in our operating results and financial performance or unanticipated capital improvements to our hotels (including capital improvements that may be required by franchisors or joint venture partners), we may be unable to declare or pay distributions to our shareholders, or maintain our then-current dividend rate. The timing and amount of distributions are in the sole discretion of our Board of Trustees, which considers, among other factors, our financial performance, debt service obligations and applicable debt covenants (if any), and capital expenditure requirements. We cannot assure you we will generate sufficient cash in order to continue to fund distributions.

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

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

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

We plan to maintain a prudent capital structure and intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) at a level that will be similar to the levels at which we have operated in the past. A subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this limitation. Our debt coverage ratios currently are favorable and, as a result, we are comfortable at this leverage ratio and believe we have the capacity and flexibility to take advantage of acquisition opportunities as they arise. As a result, we may be able to incur substantial additional debt, including secured debt, in the future. Incurring additional debt could subject us to many risks, including the risks that:

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

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

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

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

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

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

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

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

Changes in the method pursuant to which the LIBOR rates are determined and potential phasing out of LIBOR after 2021 may affect our financial results.

The chief executive of the United Kingdom Financial Conduct Authority ("FCA"), which regulates LIBOR, has recently announced (the "FCA Announcement") that the FCA intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom or elsewhere. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large US financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate ("SOFR"), a new index calculated based on short-term repurchase agreements, backed by Treasury securities. The Federal Reserve Bank of New York began publishing SOFR rates in April 2018. The market transition away from LIBOR and towards SOFR is expected to be gradual and complicated. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate and SOFR a secured lending rate, and SOFR is an overnight rate and LIBOR reflects term rates at different maturities. These and other differences create the potential for basis risk between the two rates. The impact of any basis risk between LIBOR and SOFR may negatively affect our operating results. Any of these alternative methods may result in interest rates that are higher than if LIBOR were available in its current form, which could have a material adverse effect on results.

Any changes announced by the FCA, including the FCA Announcement, other regulators or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments we incur may change. In addition, although certain of our LIBOR based obligations provide for alternative methods of calculating the interest rate payable on certain of our obligations if LIBOR is not reported, uncertainty as to the extent and manner of future changes may result in interest rates and/or payments that are higher than, lower than or that do not otherwise correlate over time with the interest rates and/or payments that would have been made on our obligations if LIBOR rate was available in its current form.

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

We are co-investors with CLNY in each of the NewINK JV and Inland JV, which own 46 and 48 hotels, respectively, and we may invest in additional joint ventures in the future. We may not be in a position to exercise decision-making authority regarding the properties owned through the JVs or other joint ventures that we may invest in. Our joint venture partners may be able to make certain important decisions about our joint venture and the joint venture properties without our approval or consent. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including reliance on our joint venture partners and the possibility that joint venture partners might become bankrupt or fail to fund their share of required capital contributions, thus exposing us to liabilities in excess of our share of the investment. Joint venture partners may have business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner would have full control over the partnership or joint venture. Any disputes that may arise between us and our joint venture partners may result in litigation or arbitration that would increase our expenses and prevent our officers and/or trustees from focusing their time and effort on our business. Consequently, actions by, or disputes with, our joint venture partners might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners.

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

In our joint ventures, there may be a potential risk of impasse in some joint venture decisions because our approval and the approval of each co-venturer will be required for some decisions. The types of decisions that would require the approval of each co-venturer would be determined under the joint venture agreement between the parties, but those types of decisions are likely to include borrowing above a certain level or disposing of assets. In some instances, the co-venturer partner may be able to effect the sale of joint venture properties or borrow funds without our approval or consent. In any joint venture, we may have the right to buy our co-venturer's interest or to sell our own interest on specified terms and conditions in the event of an impasse regarding a sale. However, it is possible that neither party will have the funds necessary to complete such a buy-out. In addition, we may experience difficulty in locating a third-party purchaser for our joint venture interest and in obtaining a favorable sale price for the interest. As a result, it is possible that we may not be able to exit the relationship if an impasse develops. In addition, there is no limitation under our declaration of trust and bylaws as to the amount of funds that we may invest in joint ventures. Accordingly, we may invest a substantial amount of our funds in joint ventures, which ultimately may

not be profitable as a result of disagreements with or among our co-venturers.

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

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

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

In connection with (i) the non-recourse mortgage loan secured by the NewINK JV properties and the related non-recourse mezzanine loan secured by the membership interests in the owners of the NewINK JV properties and (ii) the non-recourse mortgage loan secured by the Inland JV properties, the Operating Partnership provided the applicable lenders with customary environmental indemnities, as well as guarantees of certain customary non-recourse carveout provisions such as fraud, material and intentional misrepresentations and misapplication of funds. In some circumstances, such as the bankruptcy of the applicable borrowers, the guarantees are for the full amount of the outstanding debt, but in most circumstances, the guarantees are capped at 15% of the debt outstanding at the time in question (in the case of the NewINK JV loans) or 20% of the debt outstanding at the time in question (in the case of the Inland JV loans). In connection with each of the NewINK JV and Inland JV loans, the Operating Partnership has entered into a contribution agreement with its JV partner whereby the JV partner is, in most cases, responsible to cover such JV partner's pro rata share of any amounts due by the Operating Partnership under the applicable guarantees and environmental indemnities.

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

Although we have no current intention to do so, we may in the future distribute taxable dividends that are payable in cash or common shares at the election of each shareholder. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, shareholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. shareholder sells the common shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common shares. In addition, if a significant number of our shareholders sell common shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common shares.

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

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

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

Our Chief Executive Officer, Mr. Fisher, owned 52.5% of IHM, a hotel management company that, as of December 31, 2019, managed 40 of our wholly owned hotels, all of the 46 hotels owned by the NewINK JV and 34 of the hotels owned by the Inland JV, and may manage additional hotels that we acquire or own (wholly or through a joint venture) in the future. Because Mr. Fisher is our Chairman and Chief Executive Officer and controls IHM, conflicts of interest may arise between us and Mr. Fisher as to whether and on what terms new management contracts will be awarded to IHM, whether and on what terms management agreements will be renewed upon expiration of their terms, enforcement of the terms of the management agreements and whether hotels managed by IHM will be sold.

Hotel development is subject to timing, cost, and other risks.

As of December 31, 2019, we were in the process of developing a hotel in Los Angeles, California. Hotel development involves a number of risks, including the following:

- Possible environmental problems;
- construction delays or cost overruns that may increase project costs;
- receipt of and expense related to zoning, occupancy and other required governmental permits and authorizations;
- development costs incurred for projects that are not pursued to completion;
- acts of God such as earthquakes, hurricanes, floods or fires that could adversely affect a project;
- inability to raise capital; and
- governmental restrictions on the nature or size of a project.

We cannot provide assurance that any development project will be completed on time or within budget. Our inability to complete a project on time or within budget could adversely affect our financial position, results of operations, and cash flows or the market price of our stock.

Risks Related to the Lodging Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The costs of all these capital improvements could adversely affect our business, financial condition, results of operations and cash available for distribution to our shareholders.

The increasing use by consumers of Internet travel intermediaries and alternative lodging market places may adversely affect our profitability.

Some of our hotel rooms are booked through Internet travel intermediaries. As Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and our management companies. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality (such as "three-star downtown hotel") at the expense of brand identification. These agencies hope that consumers will eventually develop brand loyalties to their reservations system rather than to the brands under which our properties are franchised. Additional sources of competition, including alternative lodging marketplaces, such as HomeAway and Airbnb, which operate websites that market available furnished, privately-owned residential properties, including homes and condominiums, that can be rented on a nightly, weekly or monthly basis, may, as they become more accepted, lead to a reduced demand for conventional hotel guest rooms and to an increased supply of lodging alternatives. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of bookings made through Internet intermediaries or the use of alternative lodging marketplaces increases significantly, room revenues may flatten or decrease and our profitability may be adversely affected.

The need for business-related travel and, thus, demand for rooms in our hotels may be materially and adversely affected by the increased use of business-related technology.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as our hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for our hotel rooms may decrease and we could be materially and adversely affected.

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

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

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

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

We may assume liabilities in connection with the acquisition of hotel properties, including unknown liabilities, which, if significant, could adversely affect our business.

We may assume existing liabilities in connection with the acquisition of hotel properties, some of which may be unknown or unquantifiable. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of hotel guests, vendors or other persons dealing with the seller of a particular hotel property, tax liabilities, employment-related issues and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. If the magnitude of such unknown liabilities is high, they could adversely affect our business, financial condition, results of operations and our ability to make distributions to our shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

The outbreak of widespread contagious disease, such as the Coronavirus, could reduce travel and adversely affect hotel demand.

The widespread outbreak of infectious or contagious disease, such as H1N1 influenza (swine flu), avian bird flu, SARS, Coronavirus and Zika virus, has reduced travel into and from the affected areas, including travel from the affected areas to the U.S. Further outbreaks, especially in the U.S., could reduce travel and adversely affect the U.S. hotel industry generally and our business in particular.

As of the date of this Annual Report on Form 10-K, the recent outbreak of the Coronavirus appears to be principally concentrated in China, although cases have been confirmed in other countries and regions, and flights, trains, cruises, tours and other travel related activities have been cancelled as a result, including cancellations that have affected travel to the U.S. The extent to which our business may be affected by the Coronavirus will largely depend on future developments with respect to the continued spread and treatment of the virus, which we cannot accurately predict. New information and developments may emerge concerning the severity of the Coronavirus and the actions to contain the Coronavirus or treat its impact. To the extent that travel activity in the U.S. is materially and adversely affected by the Coronavirus, our business and financial results could be materially and adversely impacted.

General Risks Related to Real Estate Industry

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Organization and Structure

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

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

- actual receipt of an improper benefit or profit in money, property or services; or

- active and deliberate dishonesty by the trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

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

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

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

- *"Business combination"* provisions that, subject to limitations, prohibit certain business combinations between us and an "interested shareholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares) or an affiliate of any interested shareholder for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes special appraisal rights and special shareholder voting requirements on these combinations; and

- *"Control share"* provisions that provide that our "control shares" (defined as shares which, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board of Trustees, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to implement certain takeover defenses, including, but not limited to, the adoption of a classified board. In November 2013, our Board of Trustees opted in to Subtitle 8 and adopted a classified board structure in order to protect shareholder value in the wake of what our Board considered to be an unsolicited and inadequate proposal to acquire us. Although our Board subsequently took action in April 2015 to opt back out of the provisions of Subtitle 8 and declassified our Board of Trustees, our Board may elect to opt back in to Subtitle 8 again in the future. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under the circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then current market price.

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

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

Failure to make required distributions would subject us to tax.

To maintain our qualifications as a REIT, each year we must distribute to our shareholders at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding any net capital gain. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under the Code. Our only source of funds to make these distributions comes from distributions that we will receive from our Operating Partnership. Accordingly, we may be required to borrow or raise capital on terms, or sell assets at prices or at times we regard unfavorable or make taxable distributions of our capital shares or debt securities, to enable us to pay out enough of our REIT taxable income to satisfy the distribution requirement and to avoid federal corporate income tax and the 4% nondeductible excise tax in a particular year.

Failure to maintain our qualification as a REIT would subject us to federal income tax and potentially to state and local taxes.

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

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

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

Our leases with our TRS Lessees require our TRS Lessees to pay rent based in part on revenues from our hotels. Our operating risks include decreases in hotel revenues and increases in hotel operating expenses, which would adversely affect our TRS Lessees' ability to pay rent due under the leases, including but not limited to the increases in wage and benefit costs, repair and maintenance expenses, energy costs, property taxes, insurance costs and other operating expenses.

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

Our TRS structure increases our overall tax liability.

Our TRS holding company is subject to applicable federal, state and local income tax on its taxable income, which consists of the revenues from the hotel properties leased by our TRS Lessees, net of the operating expenses for such hotel properties and rent payments to us. In certain circumstances, the ability of our TRS Lessees to deduct net interest expense could be limited. Accordingly, although our ownership of our TRS Lessees allows us to participate in the operating income from our hotel properties in addition to receiving rent, that operating income is fully subject to income tax. The after-tax net income of our TRS holding company is available for distribution to us.

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

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from hotels that are operated by eligible independent contractors pursuant to hotel management agreements. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's gross assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRS holding company is subject to federal, foreign, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. We believe that the aggregate value of the stock and securities of our TRS is and will continue to be less 20% of the value of our total gross assets (including our TRS stock and securities). Furthermore, we will monitor the value of our respective investments in our TRS holding company for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will scrutinize all of our transactions with our TRS holding company and our TRS Lessees to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 20% limitation discussed above or to avoid application of the 100% excise tax discussed above.

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

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

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

The maximum U.S. federal income tax rate applicable to qualified dividend income payable to certain non-corporate U.S. shareholders is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced qualified dividend rates. For taxable years beginning before January 1, 2026, non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including "qualified REIT dividends" (generally, dividends received by a REIT shareholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduced corporate tax rate could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our shares.

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

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

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

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

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

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

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

The REIT provisions of the Code substantially limit our ability to hedge our business. Under these provisions, any income that we generate from transactions intended to hedge our interest rate or currency risks will be excluded from gross income for purposes of the 75% and 95% gross income tests applicable to REITs if the instrument hedges or offsets a hedge of (i) interest rate risk on liabilities incurred to carry or acquire real estate or (ii) risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income tests applicable to REITs, and such instrument is properly identified under applicable Treasury Regulations. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

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

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

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

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

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

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

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

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

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our gross assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities that constitute qualified real estate assets and securities of our TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our gross assets (other than government securities, securities that constitute qualified real estate assets and securities of our TRS) can consist of the securities of any one issuer, no more than 25% of the value of our assets can consist of debt of "publicly offered REITs" that is not secured by real property, and no more than 20% of the value of our total gross assets can be represented by the securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our shares.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We cannot predict the long-term effect of any recent changes or any future law changes on REITs and their shareholders. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

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

We are generally required to distribute to our shareholders at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding any net capital gains) each year for us to qualify as a REIT under the Code, which requirement we currently intend to satisfy. To the extent we satisfy the 90% distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. We have not established a minimum distribution payment level, and our ability to make distributions to our shareholders may be adversely affected by the risk factors described in this Form 10-K. Subject to satisfying the requirements for REIT qualification, we intend over time to make regular distributions to our shareholders. Our Board of Trustees has the sole discretion to determine the timing, form and amount of any distributions to our shareholders. Our Board of Trustees makes determinations regarding distributions based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, satisfaction of the requirements for REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such other matters as our Board of Trustees may deem relevant from time to time. Among the factors that could impair our ability to make distributions to our shareholders are:

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

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

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

Our senior unsecured revolving credit facility may limit our ability to pay dividends on common shares.

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

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

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

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

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

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

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

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

We also may issue from time to time additional common shares or common units in our Operating Partnership in connection with the acquisition of properties and we may grant demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of our common shares or the perception that these sales could occur may adversely affect the prevailing market price for our common shares or may impair our ability to raise capital through a sale of additional equity securities. Our Equity Incentive Plan provides for grants of equity based awards up to an aggregate of 3,000,000 common shares and we may seek to increase shares available under our Equity Incentive Plan in the future. Our New DRSPP permits the purchase of up to $50 million of our common shares through purchases and reinvestment of dividends on our common shares.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth certain operating information for our 40 wholly owned hotels as of December 31, 2019:

Property	Location	Management Company	Date of Acquisition	Year Opened	Number of Rooms	Purchase Price	Purchase Price per Room	Mortgage Debt Balance
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	Billerica, Massachusetts	IHM	4/23/2010	1999	147	$ 12.5 million	$ 85,714	$ 15.7 million
Homewood Suites by Hilton Minneapolis-Mall of America	Bloomington, Minnesota	IHM	4/23/2010	1998	144	$ 18.0 million	$ 125,000	—
Homewood Suites by Hilton Nashville-Brentwood	Brentwood, Tennessee	IHM	4/23/2010	1998	121	$ 11.3 million	$ 93,388	—
Homewood Suites by Hilton Dallas-Market Center	Dallas, Texas	IHM	4/23/2010	1998	137	$ 10.7 million	$ 78,102	—
Homewood Suites by Hilton Hartford-Farmington	Farmington, Connecticut	IHM	4/23/2010	1999	121	$ 11.5 million	$ 95,041	—
Homewood Suites by Hilton Orlando-Maitland	Maitland, Florida	IHM	4/23/2010	2000	143	$ 9.5 million	$ 66,433	—
Hampton Inn & Suites Houston-Medical Center	Houston, Texas	IHM	7/2/2010	1997	120	$ 16.5 million	$ 137,500	$ 17.7 million
Residence Inn Long Island Holtsville	Holtsville, New York	IHM	8/3/2010	2004	124	$ 21.3 million	$ 171,774	—
Residence Inn White Plains	White Plains, New York	IHM	9/23/2010	1982	135	$ 21.2 million	$ 159,398	—
Residence Inn New Rochelle	New Rochelle, New York	IHM	10/5/2010	2000	127	$ 21.0 million	$ 169,355	$ 12.9 million
Residence Inn Garden Grove	Garden Grove, California	IHM	7/14/2011	2003	200	$ 43.6 million	$ 218,000	$ 32.1 million
Residence Inn Mission Valley	San Diego, California	IHM	7/14/2011	2003	192	$ 52.5 million	$ 273,438	$ 27.3 million
Homewood Suites by Hilton San Antonio River Walk	San Antonio, Texas	IHM	7/14/2011	1996	146	$ 32.5 million	$ 222,603	$ 15.6 million
Residence Inn Washington DC	Washington, DC	IHM	7/14/2011	1974	103	$ 29.4 million	$ 280,000	—
Residence Inn Tysons Corner	Vienna, Virginia	IHM	7/14/2011	2001	121	$ 37.0 million	$ 305,785	$ 21.3 million
Hampton Inn Portland Downtown	Portland, Maine	IHM	12/27/2012	2011	125	$ 28.0 million	$ 229,508	—
Courtyard Houston	Houston, Texas	IHM	2/5/2013	2010	197	$ 34.8 million	$ 176,395	$ 17.6 million
Hyatt Place Pittsburgh North Shore	Pittsburgh, Pennsylvania	IHM	6/17/2013	2010	178	$ 40.0 million	$ 224,719	$ 21.5 million
Hampton Inn Exeter	Exeter, New Hampshire	IHM	8/9/2013	2010	111	$ 15.2 million	$ 136,937	—
Hilton Garden Inn Denver Tech	Denver, Colorado	IHM	9/26/2013	1999	180	$ 27.9 million	$ 155,000	—
Residence Inn Bellevue	Bellevue, Washington	IHM	10/31/2013	2008	231	$ 71.8 million	$ 316,883	$ 43.9 million
Springhill Suites Savannah	Savannah, Georgia	IHM	12/5/2013	2009	160	$ 39.8 million	$ 248,438	$ 29.8 million
Residence Inn Silicon Valley I	Sunnyvale, CA	IHM	6/9/2014	1983	231	$ 92.8 million	$ 401,776	$ 64.4 million
Residence Inn Silicon Valley II	Sunnyvale, CA	IHM	6/9/2014	1985	248	$ 102.0 million	$ 411,103	$ 70.3 million
Residence Inn San Mateo	San Mateo, CA	IHM	6/9/2014	1985	160	$ 72.7 million	$ 454,097	$ 48.3 million
Residence Inn Mountain View	Mountain View, CA	IHM	6/9/2014	1985	144	$ 56.4 million	$ 503,869	$ 37.7 million
Hyatt Place Cherry Creek	Glendale, CO	IHM	8/29/2014	1987	199	$ 32.0 million	$ 164,948	—
Courtyard Addison	Addison, TX	IHM	11/17/2014	2000	176	$ 24.1 million	$ 137,178	—
Courtyard West University Houston	Houston, TX	IHM	11/17/2014	2004	100	$ 20.1 million	$ 201,481	—
Residence Inn West University Houston	Houston, TX	IHM	11/17/2014	2004	120	$ 29.4 million	$ 245,363	—
Hilton Garden Inn Burlington	Burlington, MA	IHM	11/17/2014	1975	180	$ 33.0 million	$ 184,392	—
Residence Inn San Diego Gaslamp	San Diego, CA	IHM	2/25/2015	2009	240	$ 90.0 million	$ 375,000	—
Residence Inn Dedham	Dedham, MA	IHM	7/17/2015	2008	81	$ 22.0 million	$ 271,605	—
Residence Inn Il Lugano	Fort Lauderdale, FL	IHM	8/17/2015	2013	105	$ 33.5 million	$ 319,048	—
Hilton Garden Inn Marina del Rey	Marina del Rey, CA	IHM	9/17/2015	1998	136	$ 45.1 million	$ 336,194	$ 20.9 million
Hilton Garden Inn Portsmouth	Portsmouth, NH	IHM	9/20/2017	2006	131	$ 43.5 million	$ 332,061	—
Summerville Courtyard	Summerville, SC	IHM	11/15/2017	2014	96	$ 20.2 million	$ 210,417	—
Embassy Suites Springfield	Springfield, VA	IHM	12/6/2017	2013	219	$ 68.0 million	$ 310,502	—
Summerville Residence Inn	Summerville, SC	IHM	8/27/2018	2018	96	$ 20.8 million	$ 216,667	—
Dallas DT Courtyard	Dallas, TX	IHM	12/5/2018	2018	167	$ 49.0 million	$ 293,413	—
Total					**6,092**	**$1,460.6 million**	**$ 236,169**	**$497.0 million**

We lease our headquarters at 222 Lakeview Avenue, Suite 200, West Palm Beach, FL 33401. The lease for our headquarters has an initial term that expires in 2026 and the Company has an option to renew the lease for up to two successive terms of five years each. The Residence Inn New Rochelle hotel is subject to an air rights lease and garage lease that each expire on December 1, 2104. The Residence Inn San Diego Gaslamp hotel is subject to a ground lease with an expiration of January 31, 2065. The Hilton Garden Inn Marina del Rey hotel is subject to a ground lease with an expiration of December 31, 2067. For more information on the leases to which we or our hotels are subject, see "Item 1. Business - Operating Leases".

Item 3. Legal Proceedings

The nature of the operations of the Company's hotels exposes those hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. IHM is currently a defendant in several class action lawsuits pending in the state of California.

The first class action lawsuit was filed in the Santa Clara County Superior Court on October 21, 2016 under the title Ruffy, et al, v. Island Hospitality Management, LLC, et al. Case No. 16-CV-301473 ("Ruffy") and the second class action lawsuit was filed on March 21, 2018 under the title Doonan, et al, v. Island Hospitality Management, LLC, et al. Case No 18-CV-325187 ("Doonan"). The class actions relate to hotels operated by IHM in the state of California and owned by affiliates of the Company and the NewINK JV, and/or certain third parties. The complaint alleges various wage and hour law violations based on alleged misclassification of certain hotel managerial staff and violation of certain California statutes regarding incorrect information contained on employee paystubs. The plaintiffs seek injunctive relief, money damages, penalties, and interest. A settlement agreement has been negotiated and approved by the applicable courts for Ruffy and Doonan. As of December 31, 2019, included in accounts payable and accrued expenses is $0.1 million which represents an estimate of the Company's total exposure to the Ruffy and Doonan litigations based on standard indemnification obligations under hotel management agreements with IHM.

In addition, IHM is a defendant in the following series of interrelated class action lawsuits: Perez et al. v. Island Hospitality Management III LLC et al. (United States District Court for the Central District of California, Case No. 2:18-cv-04903-DMG-JPR) filed on March 15, 2018, Cruz v. Island Hospitality Management III LLC (Santa Clara County Superior Court Case No. 19CV353655) filed on August 19, 2019, Leon et al. v. Island Hospitality Management III LLC (Orange County Superior Court Case No. 30-2019-01050719-CU-OE-CXC) filed on April 2, 2019, and Vela v. Island Hospitality Management LLC et al. (San Diego County Superior Court, Case No. 37-2019-0003525) filed on July 9, 2019 (collectively the "Perez class actions"). The Perez class actions also relate to hotels operated by IHM in the state of California and owned by affiliates of the Company and the NewINK JV, and/or certain third parties. The complaints allege various wage and hour law violations based on alleged violation of certain California statutes regarding rest and meal breaks and wage statements. The plaintiffs seek injunctive relief, money damages, penalties, and interest. Settlement agreements have been negotiated and currently await approval by the applicable courts. As of December 31, 2019, included in accounts payable and accrued expenses is $0.6 million which represents an estimate of the Company's total exposure to the Perez class actions based on standard indemnification obligations under hotel management agreements with IHM.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Market Information

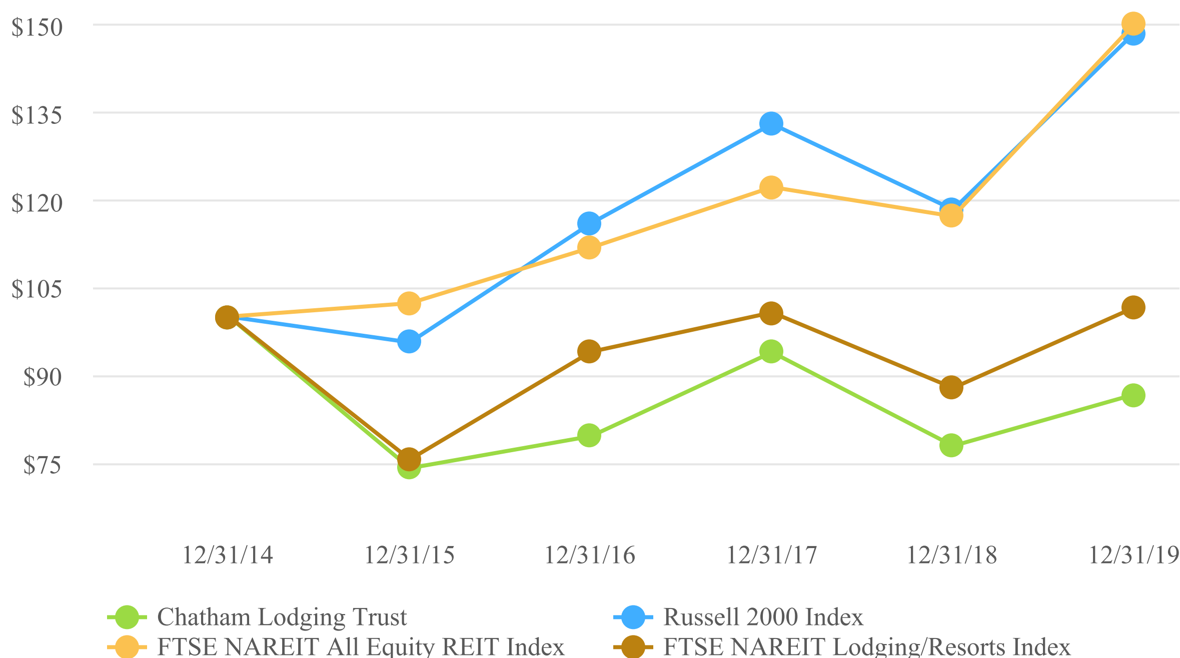
Our common shares began trading on the NYSE, on April 16, 2010 under the symbol "CLDT".

Shareholder Information

On December 31, 2019, there were 365 registered holders of record of our common shares. This figure does not include beneficial owners who hold shares in nominee name. However, because many of our common shares are held by brokers and other institutions, we believe that there are many more beneficial holders of our common shares than record holders. In order to comply with certain requirements related to our qualification as a REIT, our charter, subject to certain exceptions, limits the number of common shares that may be owned by any single person or affiliated group to 9.8% of our outstanding common shares.

The below graph provides a comparison of the five-year cumulative total return on our common shares from December 31, 2014 to the NYSE closing price per share on December 31, 2019 with the cumulative total return on the Russell 2000 Index (the “Russell 2000”), the FTSE NAREIT All Equity REIT Index (the “NAREIT All Equity”) and the NAREIT Lodging/Resorts Index (the “NAREIT Lodging”). The total return values were calculated assuming a $100 investment on December 31, 2014 with reinvestment of all dividends in (i) our common shares, (ii) the Russell 2000 Index, (iii) the NAREIT All Equity REIT Index and (iv) the NAREIT Lodging/Resorts Index. The total return values include any dividends paid during the period.

	Value of initial investment at December 31, 2014	Value of initial investment at December 31, 2015	Value of initial investment at December 31, 2016	Value of initial investment at December 31, 2017	Value of initial investment at December 31, 2018	Value of initial investment at December 31, 2019
Chatham Lodging Trust	$ 100.00	$ 74.09	$ 79.55	$ 93.90	$ 77.89	$ 86.68
Russell 2000 Index	$ 100.00	$ 95.59	$ 115.95	$ 132.94	$ 118.30	$ 148.49
FTSE NAREIT All Equity REIT Index	$ 100.00	$ 102.29	$ 111.79	$ 122.14	$ 117.14	$ 150.01
FTSE NAREIT Lodging/Resorts Index	$ 100.00	$ 75.58	$ 93.98	$ 100.71	$ 87.80	$ 101.54



Distribution Information

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

- 90% of our REIT taxable income determined without regard to the dividends paid deduction and excluding net capital gains; plus
- 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code; minus
- Any excess non-cash income (as defined in the Code).

Future distributions will be at the discretion of our board of trustees and will depend on our financial performance, debt service obligations, applicable debt covenants (if any), capital expenditure requirements, maintenance of our REIT qualification and other factors as our board of trustees deems relevant.

The following table sets forth information regarding the income tax characterization of regular distributions by the Company on its common shares for the years ended December 31, 2019 and 2018, respectively:

	2019		2018	
Common shares:				
Ordinary income	$ 1.0164	77.0 %	$ 1.1448	86.7 %
Return of capital	0.3036	23.0 %	0.1752	13.3 %
Total	**$ 1.32**	**100 %**	**$ 1.32**	**100 %**

Equity Compensation Plan Information

The following table provides information, as of December 31, 2019, relating to our Equity Incentive Plan pursuant to which grants of common share options, share awards, share appreciation rights, performance units, LTIP units and other equity-based awards options may be granted from time to time. See Note 12 to our consolidated financial statements for additional information regarding our Equity Incentive Plan.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders[1]	—	—	1,150,806
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	1,150,806

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

Sale of Unregistered Securities

None.

Issuer Purchases of Equity Securities

We do not currently have a repurchase plan or program in place. However, we do provide employees, who have been issued restricted common shares, the option of forfeiting shares to us to satisfy the minimum statutory tax withholding requirements on the date their shares vest. Once shares are forfeited, they are not eligible to be reissued. There were no common shares forfeited in the years ended December 31, 2019 and 2018, respectively, related to such repurchases.

Item 6. Selected Financial Data

The consolidated financial data included in the following table has been derived from the financial statements for the last five years and includes the information required by Item 301 of Regulation S-K. The selected historical financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the financial statements and notes thereto, both included in this Annual Report on Form 10-K.

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
	(In thousands, except share and per-share data)				
Statement of Operations Data:					
Total revenue	$ 328,328	$ 324,230	$ 301,844	$ 295,871	$ 276,950
Hotel operating expenses	174,251	170,562	155,679	148,777	136,994
Depreciation and amortization	51,505	48,169	46,292	48,775	48,981
Impairment loss	—	—	6,663	—	—
Property taxes, ground rent and insurance	24,717	23,678	20,916	21,564	18,581
General and administrative	14,077	14,120	12,825	11,119	11,677
Other charges	1,441	3,806	523	510	1,451
Reimbursed costs from unconsolidated real estate entities	5,670	5,743	5,908	6,190	3,743
Total operating expenses	271,661	266,078	248,806	236,935	221,427
Operating income before gain (loss) on sale of hotel property	56,667	58,152	53,038	58,936	55,523
Interest and other income	190	462	30	51	264
Interest expense, including amortization of deferred fees	(28,247)	(26,878)	(27,901)	(28,297)	(27,924)
Loss on early extinguishment of debt	—	—	—	(4)	(412)
Gain (loss) on sale of hotel property	(3,282)	(18)	3,327	3,327	—
Income (loss) from unconsolidated real estate entities	(6,448)	(876)	1,582	718	2,411
Net gain (loss) from remeasurement and sales of investment in unconsolidated real estate entities	—	—	—	(10)	3,576
Income before income tax benefit (expense)	18,880	30,842	30,076	34,721	33,438
Income tax benefit (expense)	—	28	(396)	301	(260)
Net income	$ 18,880	$ 30,870	$ 29,680	$ 35,022	$ 33,178
Net income attributable to non-controlling interest	(177)	(229)	(202)	(212)	(212)
Net income attributable to common shareholders	$ 18,703	$ 30,641	$ 29,478	$ 34,810	$ 32,966
Income per Common Share - Basic:					
Net income attributable to common shareholders	$ 0.39	$ 0.66	$ 0.73	$ 0.82	$ 0.87
Income per Common Share - Diluted:					
Net income attributable to common shareholders	$ 0.39	$ 0.66	$ 0.73	$ 0.81	$ 0.86
Weighted average number of common shares outstanding:					
Basic	46,788,784	46,073,515	39,859,143	38,299,067	37,917,871
Diluted	47,023,280	46,243,660	40,112,266	38,482,875	38,322,285
Other Data:					
Net cash provided by operating activities	86,234	86,215	86,689	87,669	81,842
Net cash used in investing activities	(44,575)	(96,401)	(158,411)	(15,268)	(182,363)
Net cash provided by (used in) financing activities	(53,814)	6,024	71,171	(75,509)	106,480
Cash dividends declared per common share	1.32	1.32	1.30	1.30	1.28

	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016	As of December 31, 2015
			(In thousands)		
Balance Sheet Data:					
Investment in hotel properties, net	$ 1,347,116	$ 1,373,773	$ 1,320,082	$ 1,233,094	$ 1,258,452
Investment in hotel properties under development	20,496	—	—		
Cash and cash equivalents	6,620	7,192	9,333	12,118	21,036
Restricted cash	13,562	25,145	27,166	25,083	19,273
Investment in unconsolidated real estate entities	17,969	21,545	24,389	20,424	23,618
Right of use asset	21,270	—	—	—	—
Hotel receivables (net of allowance for doubtful accounts)	4,626	4,495	4,047	4,389	4,433
Deferred costs, net	4,271	5,070	4,646	4,642	5,365
Prepaid expenses and other assets	2,615	2,431	2,523	2,778	5,052
Deferred tax asset, net	29	58	30	426	—
Total assets	$ 1,438,574	$ 1,439,709	$ 1,392,216	$ 1,302,954	$ 1,337,229
Mortgage debt, net	$ 495,465	$ 501,782	$ 506,316	$ 530,323	$ 539,623
Revolving credit facility	90,000	81,500	32,000	52,500	65,580
Accounts payable and accrued expenses	33,012	33,692	31,692	27,782	25,100
Distributions in excess of investments of unconsolidated real estate entities	15,214	9,650	6,582	6,017	2,703
Lease liability	23,717	—	—	—	—
Distributions payable	6,142	5,667	5,846	4,742	7,221
Total liabilities	663,550	632,291	582,436	621,364	640,227
Total shareholders’ equity	762,377	797,466	803,162	676,742	692,871
Noncontrolling Interest in Operating Partnership	12,647	9,952	6,618	4,848	4,131
Total liabilities and equity	$ 1,438,574	$ 1,439,709	$ 1,392,216	$ 1,302,954	$ 1,337,229

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

Overview

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

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

As of December 31, 2019, the Company owned 40 hotels with an aggregate of 6,092 rooms located in 15 states and the District of Columbia. The Company also (i) held a 10.3% noncontrolling interest in a joint venture (the "NewINK JV") with affiliates of Colony Capital, Inc. ("CLNY"), which was formed in the second quarter of 2014 to acquire 47 hotels from a joint venture (the "Innkeepers JV") between the Company and Cerberus Capital Management ("Cerberus"), comprising an aggregate of 5,948 rooms and (ii) held a 10.0% noncontrolling interest in a separate joint venture (the "Inland JV") with CLNY, which was formed in the fourth quarter of 2014 to acquire 48 hotels from Inland American Real Estate Trust, Inc. ("Inland"), comprising an aggregate of 6,402 rooms. We sometimes use the term "JVs" which refers collectively to the NewINK JV and the Inland JV.

To qualify as a REIT, the Company cannot operate its hotels. Therefore, the Operating Partnership and its subsidiaries lease each of the Company's wholly owned hotels to a taxable REIT subsidiary lessee ("TRS Lessee"), which is wholly owned by the Company's taxable REIT subsidiary ("TRS") holding company. The Company indirectly (i) owns its 10.3% interest in the 46 NewINK JV hotels and (ii) 10.0% interest in the 48 Inland JV hotels through the Operating Partnership. All of the NewINK JV hotels and Inland JV hotels are leased to TRS Lessees, in which the Company indirectly owns or owned as applicable, noncontrolling interests through its TRS holding company. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation.

The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of December 31, 2019, Island Hospitality Management Inc. ("IHM"), which is 52.5% owned by Mr. Fisher, managed all 40 of the Company's wholly owned hotels. As of December 31, 2019, all of the NewINK JV hotels were managed by IHM. As of December 31, 2019, 34 of the Inland JV hotels were managed by IHM and 14 hotels were managed by Marriott International, Inc. ("Marriott").

Key Indicators of Operating Performance and Financial Condition

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

- Average Daily Rate ("ADR"), which is the quotient of room revenue divided by total rooms sold,
- Occupancy, which is the quotient of total rooms sold divided by total rooms available,
- Revenue Per Available Room ("RevPAR"), which is the product of occupancy and ADR, and does not include food and beverage revenue, or other operating revenue,
- Funds From Operations ("FFO"),
- Adjusted FFO,
- Earnings before interest, taxes, depreciation and amortization ("EBITDA"),
- EBITDA*re*,
- Adjusted EBITDA, and
- Adjusted Hotel EBITDA.

We evaluate the hotels in our portfolio and potential acquisitions using these metrics to determine each hotel's contribution toward providing income to our shareholders through increases in distributable cash flow and increasing long-term total returns through appreciation in the value of our common shares. RevPAR, ADR and Occupancy are hotel industry measures commonly used to evaluate operating performance.

See "Non-GAAP Financial Measures" for further discussion of FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA.

Results of Operations

Industry outlook

We believe that the lodging industry's performance is correlated to the performance of the economy overall, and specifically key economic indicators such as GDP growth, employment trends, corporate travel and corporate profits. Lodging industry performance is also impacted by room supply growth, which is currently elevated in the Upscale segment in which most of our hotels operate. Overall U.S. room supply increased 2.0% in 2019, but supply in the Upscale segment increased by 4.9% in 2019. Smith Travel Research is projecting U.S. hotel supply growth to increase to 1.9% in 2020. Continued supply growth could negatively impact RevPAR growth. We are currently projecting 2020 RevPAR change of -1.25% to +0.25% as compared to 2019.

Comparison of the year ended December 31, 2019 ("2019") to the year ended December 31, 2018 ("2018")

The section below provides a comparative discussion of our consolidated results of operations between fiscal 2019 and 2018. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 for comparative a discussion of our consolidated results of operations between fiscal 2018 and fiscal 2017.

Results of operations for the year ended December 31, 2019 include the operating activities of our 40 wholly owned hotels that were owned for the entire period, partial period results for two hotels which were sold during the period, and our investments in the NewINK JV and Inland JV. We sold one hotel in Altoona, PA on May 7, 2019 and one hotel in Washington, PA on May 15, 2019. We acquired the Residence Inn by Marriott Summerville, SC on August 27, 2018 and the Courtyard by Marriott Dallas Downtown, TX on December 5, 2018. Accordingly, the comparisons below are influenced by these dispositions and acquisitions.

Revenue

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

	Year ended		
	December 31, 2019	December 31, 2018	% Change
Room	$ 296,267	$ 295,897	0.1 %
Food and beverage	9,824	8,880	10.6 %
Other	16,567	13,710	20.8 %
Cost reimbursements from unconsolidated real estate entities	5,670	5,743	(1.3)%
Total revenue	$ 328,328	$ 324,230	1.3 %

Total revenue increased $4.1 million to $328.3 million for the year ended December 31, 2019 compared to total revenue of $324.2 million for the 2018 period. Total revenue related to the two hotels acquired during 2018 contributed $10.3 million of the increase, offset by a decrease of $3.2 million for the two hotels sold in 2019, with the 38 comparable hotels owned by the Company throughout the 2019 and 2018 periods down $3.0 million. Since our hotels are primarily select service or limited service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue comprised 90.2% and 91.3%, respectively, of total revenue for the years ended December 31, 2019 and December 31, 2018. Room revenue was $296.3 million and $295.9 million for the years ended December 31, 2019 and 2018, respectively, the two hotels acquired during 2018 contributed $8.8 million of the increase,

offset by a decrease of $2.9 million for the two hotels sold in 2019, with the 38 comparable hotels owned by the Company throughout the 2019 and 2018 periods down $5.5 million or 1.8%.

Food and beverage revenue was $9.8 million and $8.9 million for the years ended December 31, 2019 and 2018. Food and beverage revenue related to the hotels acquired in 2018 contributed $0.8 million of the increase.

Other revenue comprised of parking, meeting room, gift shop, in-room movie and other ancillary amenities revenue, was up $2.9 million for the year ended December 31, 2019. Hotels acquired in 2018 contributed $0.7 million to the increase and the increase for the 38 comparable hotels related primarily to miscellaneous room revenue, restaurant lease income and parking.

Cost reimbursements from unconsolidated real estate entities, comprised of payroll costs at the JVs and Castleblack, which is 97.5% owned by affiliates of CLNY and 2.5% by Mr. Fisher, where the Company is the employer, were $5.7 million and $5.7 million respectively, for the years ended December 31, 2019 and 2018. The cost reimbursements were offset by the reimbursed costs from unconsolidated real estate entities included in operating expenses.

As reported by Smith Travel Research, industry RevPAR for the years ended December 31, 2019 and 2018 increased 0.9% and 2.9%, respectively, as compared to the years ended December 31, 2018 and 2017. RevPAR at our 40 wholly owned hotels decreased 1.6% in 2019 and increased 0.9% in 2018 as compared to the respective prior year periods primarily due to lower growth in the upscale segment in which most of our hotels operate and lower growth in our specific markets primarily due to new supply.

In the table below, we present both actual and same property room revenue metrics. Actual Occupancy, ADR and RevPAR metrics reflect the performance of the hotels for the actual days such hotels were owned by the Company during the periods presented. Same property Occupancy, ADR, and RevPAR results for the 40 hotels wholly owned by the Company as of December 31, 2019 and that have been in operation for a full year regardless of ownership during the period presented, which is a non-GAAP financial measure. Results for the hotels for the periods prior to our ownership were provided to us by prior owners and have not been adjusted by us.

	For the years ended December 31,					
	2019		2018		Percentage Change	
	Same Property (40 hotels)	Actual (42 hotels)	Same Property (40 hotels)	Actual (42 hotels)	Same Property (40 hotels)	Actual (42 hotels)
Occupancy	80.2 %	80.1 %	80.4 %	80.1 %	(0.3)%	— %
ADR	$ 166.47	$ 165.01	$ 168.66	$ 166.51	(1.3)%	(0.9)%
RevPAR	$ 133.47	$ 131.77	$ 135.59	$ 133.37	(1.6)%	(1.2)%

Same property RevPAR decreased 1.6% due to a decrease in occupancy of 0.3% and a decrease in ADR of 1.3%.

Hotel Operating Expenses

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

	Year ended		
	December 31, 2019	December 31, 2018	% Change
Hotel operating expenses:			
Room	$ 65,270	$ 63,877	2.2 %
Food and beverage expense	8,396	7,312	14.8 %
Telephone expense	1,638	1,766	(7.2)%
Other expense	4,039	3,296	22.5 %
General and administrative	25,641	25,567	0.3 %
Franchise and marketing fees	25,850	24,864	4.0 %
Advertising and promotions	6,043	6,227	(3.0)%
Utilities	10,867	10,835	0.3 %
Repairs and maintenance	14,321	14,710	(2.6)%
Management fees	10,822	10,754	0.6 %
Insurance	1,364	1,354	0.7 %
Total hotel operating expenses	$ 174,251	$ 170,562	2.2 %

Hotel operating expenses increased $3.7 million, or 2.2% to $174.3 million for the year ended December 31, 2019 from $170.6 million for the year ended December 31, 2018. The increase in total hotel operating expenses attributable to the two hotels acquired in 2018 was $5.3 million, offset by a decrease of $1.9 million for the two hotels sold in 2019, while the 38 comparable hotels owned by the Company throughout the 2019 and 2018 periods increased $0.3 million.

Room expenses, which are the most significant component of hotel operating expenses, increased $1.4 million from $63.9 million in 2018 to $65.3 million in 2019. Total room expenses attributable to the two hotels acquired in 2018 was $1.6 million, offset by a decrease of $0.7 million for the two hotels sold in 2019, while 38 comparable hotels owned by the Company throughout the 2019 and 2018 periods increased $0.5 million. The increase in rooms expense at the 38 comparable hotels was due primarily to increased labor costs.

The remaining hotel operating expenses increased $2.3 million, or 2.2%, from $106.7 million in 2018 to $109.0 million in 2019. The increase attributable to the two hotels acquired in 2018 was $3.7 million, offset by a decrease of $1.2 million for the two hotels sold in 2019, the while 38 comparable hotels owned by the Company throughout the 2019 and 2018 periods decreased $0.2 million.

Depreciation and Amortization

Depreciation and amortization expense increased $3.3 million from $48.2 million for the year ended December 31, 2018 to $51.5 million for the year ended December 31, 2019. The increase attributable to the two hotels acquired in 2018 was $2.1 million, offset by a reduction of $0.4 million from the sale of the two hotels in 2019 and an increase at the 38 comparable hotels owned by us throughout the 2019 and 2018 periods of $1.6 million due to renovations. Depreciation is generally recorded on our assets over 40 years for buildings, 20 years for land improvements, 15 years for building improvements and one to ten years for hotel furniture, fixtures and equipment from the date of acquisition on a straight-line basis. Depreciable lives of hotel furniture, fixtures and equipment are generally assumed to be the difference between the date of acquisition and the date that the furniture, fixtures and equipment will be replaced. Amortization of franchise fees is recorded on a straight-line basis over the term of the respective franchise agreement.

Property Taxes, Ground Rent and Insurance

Total property taxes, ground rent and insurance expenses increased $1.0 million from $23.7 million for the year ended December 31, 2018 to $24.7 million for the year ended December 31, 2019. The increase related to the two hotels acquired in 2018 was $1.3 million, offset by a reduction of $0.3 million from the two hotels sold in 2019.

General and Administrative

General and administrative expenses principally consist of employee-related costs, including base payroll, bonuses and amortization of restricted stock and awards of LTIP units. These expenses also include corporate operating costs, professional fees and trustees' fees. Total general and administrative expenses (excluding amortization of stock based compensation of $4.7 million and $4.2 million for the years ended December 31, 2019 and 2018, respectively) decreased $0.5 million, or 5%, to $9.4 million in 2019 from $9.9 million in 2018, with the decrease primarily due to franchise taxes.

Other Charges

Other charges decreased from $3.8 million for the year ended December 31, 2018 to $1.4 million for the year ended December 31, 2019. The 2018 costs primarily consisted of the write off of previous expenditures related to previously planned expansions at several of our Silicon Valley hotels. The Company has decided not to continue with these expansions at this time and has expensed the costs associated with the planning of these expansions. The 2019 costs primarily consist of insurance deductibles and the Company's share of expense related to a class action lawsuit in California (See Legal Proceedings in Part I).

Reimbursed Costs from Unconsolidated Real Estate Entities

Reimbursed costs from unconsolidated real estate entities, comprised of corporate payroll and office rent costs of the NewINK JV and Inland JV and Castleblack which is 2.5% owned by Mr. Fisher, where the Company is the employer, were $5.7 million and $5.7 million for the years ended December 31, 2019 and 2018, respectively. These reimbursed costs were offset by the cost reimbursements from unconsolidated real estate entities included in revenues.

Loss on Sale of Hotel Property

Loss on the sale of hotel property increased $3.3 million for the year ended December 31, 2019 compared to the year ended December 31, 2018 due to the sales of the Courtyard Altoona, PA on May 7, 2019 and the SpringHill Suites Washington, PA on May 15, 2019 and no comparable loss in 2018.

Interest and Other Income

Interest on cash and cash equivalents and other income decreased from $462.0 thousand for the year ended December 31, 2018 to $190.0 thousand for the year ended December 31, 2019. The decrease is primarily related to fees received for services provided to Castleblack, which is 97.5% owned by CLNY and 2.5% owned by Mr. Fisher.

Interest Expense, Including Amortization of Deferred Fees

Interest expense increased $1.3 million, or 4.8%, from $26.9 million for the year ended December 31, 2018 to $28.2 million for the year ended December 31, 2019. Interest expense is comprised of the following (dollars in thousands):

	Year ended		
	December 31, 2019	**December 31, 2018**	**% Change**
Mortgage debt interest	$ 23,652	$ 23,911	(1.1)%
Credit facility interest	3,106	1,321	135.1 %
Other fees	569	735	(22.6)%
Amortization of deferred financing costs	920	911	1.0 %
Total	**$ 28,247**	**$ 26,878**	**5.1 %**

The increase in interest expense for the year ended December 31, 2019 as compared to year ended December 31, 2018 is primarily due to an increase in the interest expense on the Company's senior unsecured revolving credit facility due to an increase in utilization of the credit facility for the year ended December 31, 2019 as compared to year ended December 31, 2018.

Loss from Unconsolidated Real Estate Entities

Loss from unconsolidated real estate entities increased $5.5 million from a loss of $0.9 million for the year ended December 31, 2018 to a loss of $6.4 million for the year ended December 31, 2019. The increase is due primarily to impairments recorded at three NewINK JV hotels and one Inland JV hotel in the year ended December 31, 2019.

Income Tax Benefit

Income tax benefit changed from a benefit of $28.0 thousand for the year ended December 31, 2018 to zero for the year ended December 31, 2019. We are subject to income taxes based on the taxable income of our TRS Lessees at a combined federal and state tax rate of approximately 25%. The Company's TRS is expecting taxable losses in 2020 and recognizes a full valuation allowance equal to 100% of the net deferred tax assets, with the exception of the AMT tax credit, due to the uncertainty of the TRS's ability to utilize these net deferred tax assets.

Net Income

Net income was $18.9 million for the year ended December 31, 2019, compared to net income of $30.9 million for the year ended December 31, 2018. The decrease in our net income was due to the factors discussed above.

Material Trends or Uncertainties

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

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our operating performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, (4) EBITDA*re*, (5) Adjusted EBITDA and (6) Adjusted Hotel EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as prescribed by GAAP as a measure of our operating performance.

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

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

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

The following is a reconciliation of net income to FFO and Adjusted FFO for the years ended December 31, 2019, 2018 and 2017 (in thousands, except share data):

	For the year ended December 31,		
	2019	2018	2017
Funds From Operations ("FFO"):			
Net income	$ 18,880	$ 30,870	$ 29,680
Loss (gain) on sale of hotel property	3,282	18	(3,327)
Loss on the sale of assets within unconsolidated real estate entities	219	—	—
Depreciation	51,258	47,932	46,060
Impairment loss	—	—	6,663
Impairment loss from unconsolidated real estate entities	4,197	—	—
Adjustments for unconsolidated real estate entity items	7,493	6,992	6,600
FFO attributed to common share and unit holders	85,329	85,812	85,676
Other charges	1,441	3,806	523
Adjustments for unconsolidated real estate entity items	1,028	1,078	96
Adjusted FFO attributed to common share and unit holders	$ 87,798	$ 90,696	86,295
Weighted average number of common shares and units			
Basic	47,238,309	46,428,387	40,138,856
Diluted	47,472,805	46,598,532	40,391,978

Diluted weighted average common share count used for calculation of adjusted FFO per share may differ from diluted weighted average common share count used for calculation of GAAP Net Income per share by LTIP units, which may be converted to common shares of beneficial interest and if Net Income per share is negative and Adjusted FFO is positive. Unvested restricted shares and unvested LTIP units that could potentially dilute basic earnings per share in the future would not be included in the computation of diluted loss per share for the periods where a loss has been recorded because they would have been anti-dilutive for the periods presented.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is defined as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; (3) depreciation and amortization; and (4) unconsolidated real estate entity items including interest, depreciation and amortization excluding gains and losses from sales of real estate. We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions.

In addition to EBITDA, we present EBITDA*re* in accordance with NAREIT guidelines, which defines EBITDA*re* as net income or loss excluding interest expense, income tax expense, depreciation and amortization expense, gains or losses from sales of real estate, impairment, and adjustments for unconsolidated joint ventures. We believe that the presentation of EBITDA*re* provides useful information to investors regarding the Company's operating performance and can facilitate comparison of operating performance between periods and between REITs.

We also present Adjusted EBITDA which includes additional adjustments for items such as other charges, gains or losses on extinguishment of indebtedness, transaction costs, amortization of share-based compensation and certain other expenses that we consider outside the normal course of operations. We believe that Adjusted EBITDA provides useful supplemental information to investors regarding our ongoing operating performance that, when considered with net income, EBITDA and EBITDA*re*, is beneficial to an investor's understanding of our performance.

The following is a reconciliation of net income to EBITDA, EBITDA*re* and Adjusted EBITDA for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	For the year ended December 31,		
	2019	2018	2017
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"):			
Net income	$ 18,880	$ 30,870	$ 29,680
Interest expense	28,247	26,878	27,901
Income tax (benefit) expense	—	(28)	396
Depreciation and amortization	51,505	48,169	46,292
Adjustments for unconsolidated real estate entity items	18,214	16,495	14,650
EBITDA	116,846	122,384	118,919
Impairment loss	—	—	6,663
Impairment loss from unconsolidated real estate entities	4,197	—	—
Loss (gain) on sale of hotel property	3,282	18	(3,327)
Loss on the sale of assets within unconsolidated real estate entities	219	—	—
EBITDA*re*	124,544	122,402	122,255
Other charges	1,441	3,806	523
Adjustments for unconsolidated real estate entity items	293	1,081	136
Share based compensation	4,719	4,210	3,784
Adjusted EBITDA	$ 130,997	$ 131,499	$ 126,698

Adjusted Hotel EBITDA is defined as net income before interest, income taxes, depreciation and amortization, corporate general and administrative, impairment loss, loss on early extinguishment of debt, other charges, interest and other income, loses on sales of hotel properties and income or loss from unconsolidated real estate entities. We present Adjusted Hotel EBITDA because we believe it is useful to investors in comparing our hotel operating performance between periods and comparing our Adjusted Hotel EBITDA margins to those of our peer companies. Adjusted Hotel EBITDA represents the results of operations for our wholly owned hotels only.

The following is a presentation of Adjusted Hotel EBITDA for the years ended December 31, 2019, 2018 and 2017 (in thousands):

		For the year ended December 31,		
		2019	2018	2017
Net income		18,880	30,870	29,680
Add:	Interest expense	28,247	26,878	27,901
	Income tax expense	—	—	396
	Depreciation and amortization	51,505	48,169	46,292
	Corporate general and administrative	14,077	14,120	12,825
	Other charges	1,441	3,806	523
	Impairment loss	—	—	6,663
	Loss from unconsolidated real estate entities	6,448	876	—
	Loss on sale of hotel property	3,282	18	—
Less:	Interest and other income	(190)	(462)	(30)
	Gain on sale of hotel property	—	—	(3,327)
	Income from unconsolidated real estate entities	—	—	(1,582)
	Income tax benefit	—	(28)	—
Adjusted Hotel EBITDA		$ 123,690	$ 124,247	$119,341

- Although we present FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA because we believe they are useful to investors in comparing our operating performance between periods and between REITs that report similar measures, these measures have limitations as analytical tools. Some of these limitations are:
- FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect funds available to make cash distributions;
- EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may need to be replaced in the future, and FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect any cash requirements for such replacements;
- Non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period using Adjusted EBITDA;
- Adjusted FFO, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect the impact of certain cash charges (including acquisition transaction costs) that result from matters we consider not to be indicative of the underlying performance of our hotel properties; and
- Other companies in our industry may calculate FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA differently than we do, limiting their usefulness as a comparative measure.

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

Sources and Uses of Cash

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

As of December 31, 2019 and December 31, 2018, we had cash and cash equivalents of approximately $6.6 million and $7.2 million, respectively. Additionally, we had $160.0 million available under our $250.0 million senior unsecured revolving credit facility as of December 31, 2019.

For the year ended December 31, 2019, net cash flows provided by operations were $86.2 million, driven by net income of $18.9 million and by $66.8 million of non-cash items, including $52.4 million of depreciation and amortization and $4.7 million of share-based compensation expense, $3.3 million of loss on the sale of hotels and losses of $6.4 million from unconsolidated real estate entities. In addition, changes in operating assets and liabilities due to the timing of cash receipts, payment for real estate taxes, payments of corporate compensation and payments from our hotels resulted in net cash inflow of $0.5 million. Net cash flows used in investing activities were $44.6 million, primarily related to capital improvements on our 40 wholly owned hotels of $35.9 million, $12.2 million related to the development of a new hotel and the purchase of a parcel of land for $8.2 million, offset by proceeds from the sale of the Altoona and Washington, PA hotels of $9.0 million and distributions of $2.7 million received from unconsolidated real estate entities. Net cash flows used by financing activities were $53.8 million, comprised of $7.3 million of common equity proceeds raised through sales under our ATM Plans and New DRSPP, net borrowings on our unsecured credit facility of $8.5 million, offset by principal payments or payoffs on mortgage debt of $6.7 million, payments of deferred financing and offering costs of $0.2 million, and distributions to shareholders and LTIP unit holders of $62.7 million.

For the year ended December 31, 2018, net cash flows provided by operations were $86.2 million, driven by net income of $30.9 million and by $54.1 million of non-cash items, including $49.1 million of depreciation and amortization and $4.2 million of share-based compensation expense and losses of $0.8 million from unconsolidated real estate entities. In addition, changes in operating assets and liabilities due to the timing of cash receipts, payment for real estate taxes, payments of corporate compensation and payments from our hotels resulted in net cash inflow of $1.2 million. Net cash flows used in investing activities were $96.4 million, primarily related the purchase of the Residence Inn Summerville for $21.0 million and the Dallas Downtown Courtyard for $49.0 million, capital improvements on our 42 wholly owned hotels of $31.4 million, reduced by distributions of $5.0 million received from unconsolidated real estate entities. Net cash flows provided by financing activities were $6.0 million, comprised of $24.5 million of common equity proceeds raised through sales under our ATM Plans and New DRSPP, net borrowings on our unsecured credit facility of $49.5 million, principal payments or payoffs on mortgage debt of $4.9 million, payments of deferred financing and offering costs of $1.5 million, and distributions to shareholders and LTIP unit holders of $61.6 million.

For the year ended December 31, 2017, net cash flows provided by operations were $86.7 million, driven by net income of $29.7 million and by $56.9 million of non-cash items, including $46.9 million of depreciation and amortization, $6.7 million of impairment loss, $3.8 million of share-based compensation expense, distributions of $0.7 million received from unconsolidated real estate entities and $0.4 million related to a deferred tax expense, offset by $1.6 million related to the income from unconsolidated entities, offset by a gain on sale of hotel of $3.3 million. In addition, changes in operating assets and liabilities due to the timing of cash receipts, payment for real estate taxes, payments of corporate compensation and payments from our hotels resulted in net cash inflow of $3.4 million. Net cash flows used in investing activities were $158.4 million, primarily related the purchase of the Hilton Garden Inn Portsmouth for $43.4 million, the purchase of the Summerville Courtyard for $20.2 million, the Springfield Embassy Suites for $68.2 million and the purchase of a parcel of land in Los Angeles for $6.5 million, capital improvements on our 40 wholly owned hotels of $30.2 million, $5.0 million related to our Inland JV investment, reduced by proceeds from the sale of the Homewood Suites Carlsbad hotel of $12.5 million and distributions of $2.6 million received from unconsolidated real estate entities. Net cash flows provided by financing activities were $71.2 million, comprised of $150.7 million of common equity proceeds raised from our issuance of common shares in our November 2017 underwritten public offering and through sales under our ATM Plans and DRSPPs, net repayments on our unsecured credit facility of $20.5 million, principal payments or payoffs on mortgage debt of $4.2 million, payments of deferred financing and offering costs of $2.1 million, and distributions to shareholders and LTIP unit holders of $52.7 million.

We have maintained a monthly dividend of $0.11 per share and LTIP unit since March 2016. On January 31, 2020, we paid an aggregate of $5.2 million in dividends on our common shares and distributions on our LTIP units attributable to the December 2019 monthly dividend.

Liquidity and Capital Resources

We plan to maintain a prudent capital structure and intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) at a level that will be similar to the levels at which we have operated in the past. A subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this limitation. At December 31, 2019, our leverage ratio was approximately 34.1 percent, which decreased from 34.7 percent at December 31, 2018 based on the ratio of our net debt (total debt outstanding before deferred financing costs less unrestricted cash and cash equivalents) to hotel investments at cost, including our JV investments. At December 31, 2019, we had total debt of $586.9 million at an average rate of approximately 4.6%. Our debt coverage ratios currently are favorable and we are comfortable in this leverage range and believe we have the capacity and flexibility to take advantage of acquisition opportunities as they arise. We intend to continue to fund our investments with a prudent balance of debt and equity. Our debt may include mortgage debt collateralized by our hotel properties and unsecured debt.

At December 31, 2019 and 2018, we had $90.0 million and $81.5 million, respectively, in outstanding borrowings under our senior unsecured revolving credit facility. At December 31, 2019, the maximum borrowing availability under our senior unsecured revolving credit facility was $250.0 million. We also had mortgage debt on individual hotels aggregating $496.9 million and $503.6 million at December 31, 2019 and 2018, respectively.

Our senior unsecured credit facility contains representations, warranties, covenants, terms and conditions customary for credit facilities of this type, including a maximum leverage ratio, a minimum fixed charge coverage ratio and minimum net worth financial covenants, limitations on (i) liens, (ii) incurrence of debt, (iii) investments, (iv) distributions, and (v) mergers and asset dispositions, covenants to preserve corporate existence and comply with laws, covenants on the use of proceeds of the senior unsecured revolving credit facility and default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, non-performance of covenants, cross-defaults and guarantor defaults. We were in compliance with all financial covenants at December 31, 2019.

On March 8, 2018, we refinanced our senior unsecured credit facility with a new facility having a maturity date in March 2023, which includes the option to extend the maturity by an additional year, and replaces our previous $250 million senior unsecured credit facility that was scheduled to mature in 2020. At December 31, 2019, based on our current leverage level, the borrowing cost under the facility is LIBOR plus 1.65 percent. We were in compliance with all financial covenants at December 31, 2019.

In January 2014, we established a $25 million dividend reinvestment and stock purchase plan (the "Prior DRSPP"). We filed a new $50 million shelf registration statement for the dividend reinvestment and stock purchase plan (the "New DRSPP" and together with the Prior DRSPP, the "DRSPPs") on December 28, 2017 to replace the prior expiring program. Under the DRSPPs, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company's common shares. Shareholders may also make optional cash purchases of the Company's common shares subject to certain limitations detailed in the prospectuses for the DRSPPs. During the year ended December 31, 2019, we issued 259,954 shares under the New DRSPP at a weighted average price of $20.09, which generated $5.2 million of proceeds. As of December 31, 2019 and December 31, 2018, respectively, we had issued 1,768,000 and 1,508,046 shares under the DRSPPs at a weighted average price of $21.33 and $21.55 per share, respectively. As of December 31, 2019, there were common shares having a maximum aggregate sales price of approximately $27.9 million available for issuance under the New DRSPP.

In January 2014, the Company established an At the Market Equity Offering ("Prior ATM Plan") whereby, from time to time, we may publicly offer and sell our common shares having an aggregate maximum offering price of up to $50 million by means of ordinary brokers' transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933. We filed a $100 million registration statement for a new ATM program (the "ATM Plan" and together with the Prior ATM Plan, the "ATM Plans") on December 28, 2017 to replace the prior program. At the same time, the Company entered into sales agreements with Cantor Fitzgerald & Co. ("Cantor"), Barclays Capital Inc. ("Barclays"), Robert W. Baird & Co. Incorporated ("Baird"), BTIG, LLC ("BTIG"), Citigroup Global Markets Inc. ("Citigroup"), Stifel, Nicolaus & Company, Incorporated ("Stifel") and Wells Fargo Securities, LLC ("Wells Fargo") as sales agents. During the year ended December 31, 2019, we issued 103,590 shares under the ATM Plan at a weighted average price of $20.05, which generated $2.1 million of proceeds. As of December 31, 2019 and December 31, 2018, respectively, we had issued 2,602,260 and 2,498,670 shares under the ATM Plans at a weighted average price of $21.76 and $21.83 per share, respectively, in addition to the offerings discussed above. As of December 31, 2019, there were common shares having a maximum aggregate sales price of approximately $90.4 million available for issuance under the ATM Plan.

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

We intend to continue to invest in hotel properties as suitable opportunities arise. We intend to finance our future investments with free cash flow, the net proceeds from additional issuances of common and preferred shares, issuances of common units in our Operating Partnership or other securities, borrowings or asset sales. The success of our acquisition strategy depends, in part, on our ability to access additional capital through other sources. There can be no assurance that we will continue to make investments in properties that meet our investment criteria. Additionally, we may choose to dispose of certain hotels as a means to provide liquidity.

Capital Expenditures

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

For the years ended December 31, 2019 and 2018, we invested approximately $35.9 million and $31.4 million, respectively, on capital projects in our hotels. We expect to invest approximately $22.9 million on renovations, discretionary and emergency expenditures on our existing hotels in 2020, including improvements required under any brand PIP.

We are developing a hotel in Los Angeles, CA on a parcel of land owned by us. We expect the total development costs for construction of the hotel to be approximately $65.0 million, which includes the cost of the land. We have incurred $20.5 million of costs to date, which included $6.6 million of the land acquisition costs and $13.9 million of other development costs. We reclassified the $6.6 million of land acquisition costs from Land to Hotel Properties Under Development during the year ended December 31, 2019 in conjunction with our development activities.

Related Party Transactions

We have entered into transactions and arrangements with related parties that could result in potential conflicts of interest. See "Risks Related to Our Business" and Note 15, "Related Party Transactions", to our consolidated financial statements included in this Annual Report on Form 10-K. See also Item 13 of this Form 10-K.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at December 31, 2019 other than non-recourse debt associated with the NewINK JV and Inland JV as discussed below.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2019, and the effect these obligations are expected to have on our liquidity and cash flow in future periods (in thousands).

	Payments Due by Period				
Contractual Obligations	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Corporate office lease (1)	$ 5,806	$ 812	$ 1,684	$ 1,770	$ 1,540
Revolving credit facility, including interest (2)	99,518	4,359	95,159	—	—
Ground leases	73,457	1,215	2,438	2,438	67,366
Property loans, including interest (2)	572,968	32,571	76,916	447,550	15,931
Total	$ 751,749	$ 38,957	$ 176,197	$ 451,758	$ 84,837

1. The Company entered into a corporate office lease in 2015. The lease is for eleven years and includes a 12-month rent abatement period and certain tenant improvement allowances. The Company will share the space with related parties and will be reimbursed for the pro-rata share of rentable space occupied by related parties.

2. Does not reflect paydowns or additional borrowings under the senior unsecured revolving credit facility after December 31, 2019. Interest payments are based on the interest rate in effect as of December 31, 2019. See Note 7, "Debt" to our consolidated financial statements for additional information relating to our property loans.

In addition to the above listed obligations, we pay management and franchise fees to our hotel management companies and franchisors based on the revenues of our hotels. The table above also does not include $22.9 million that we expect to invest on renovations, discretionary and emergency capital expenditures on our existing hotels in 2020, or $44.5 million of estimated remaining costs associated with our Los Angeles hotel development. Our contracts associated with these planned

capital expenditures contain clauses that allow us to cancel all or some portion of the work. If cancellation of a contract occurred, our commitment would be any costs incurred up to the cancellation date, in addition to any costs associated with the discharge of the contract.

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

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

Inflation

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

Critical Accounting Policies

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

Investment in Hotel Properties

We allocate the purchase prices of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, identifiable intangible assets and assumed liabilities. In making estimates of fair value for purposes of allocating the purchase price, we utilize a number of sources of information that are obtained in connection with the acquisition of a hotel property, including valuations performed by independent third parties and information obtained about each hotel property resulting from pre-acquisition due diligence. Hotel property acquisition costs, such as transfer taxes, title insurance, environmental and property condition reviews, and legal and accounting fees were expensed in 2016. The Company early adopted ASU 2017-01 "Definition of a Business" which requires these costs to be capitalized for asset acquisitions. The Company generally expects its hotel acquisitions will qualify as asset acquisitions.

Our hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for land improvements, 5 to 20 years for building improvements and one to ten years for furniture, fixtures and equipment. Renovations and/or replacements at the hotel properties that improve or extend the life of the assets are capitalized and depreciated over their useful lives, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the Company’s accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

Our hotel properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When these conditions exist, management will perform an analysis to determine if the estimated undiscounted future cash flows, without interest charges, from operations and the proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value is recorded and an impairment loss recognized. For the year ended December 31, 2017, the Company incurred an impairment loss on its Washington SHS, PA hotel. For the years ended December 31, 2019 and 2018 there were no impairment losses.

For properties the Company considers held for sale, depreciation and amortization are no longer recorded and the value the properties is recorded at the lower of depreciated cost or fair value, less costs to sell. If circumstances arise that were previously considered unlikely, and, as a result, the Company decides not to sell a property previously classified as held for sale, the Company will reclassify such property as held and used. Such property is measured at the lower of its carrying amount (adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used) or fair value at the date of the subsequent decision not to sell. The Company classifies properties as held for sale when all criteria within the Financial Accounting Standards Board's ("FASB") guidance on the impairment or disposal of long-lived assets are met. As of December 31, 2019, we had no hotel properties held for sale.

Investment in Unconsolidated Real Estate Entities

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

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

On January 1, 2016, the Company adopted accounting guidance under Accounting Standards Codification (ASC) Topic 810, "Consolidation," modifying the analysis it must perform to determine whether it should consolidate certain types of legal entities. The guidance does not amend the existing disclosure requirements for variable interest entities ("VIEs") or voting interest model entities. The guidance, however, modified the requirements to qualify under the voting interest model. Under the revised guidance, the Operating Partnership is a VIE of the Company. As the Operating Partnership is already consolidated in the financial statements of the Company, the identification of this entity as a VIE has no impact on the consolidated financial statements of the Company. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption. In addition, there were no other voting interest entities under prior existing guidance determined to be variable interest entities under the revised guidance.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, the Company will estimate the fair value of the investment. The Company's estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount over the fair value of the Company's investment in the unconsolidated joint venture. As of December 31, 2019 and 2018, we had no JVs that were impaired.

Revenue Recognition

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

On January 1, 2018, the Company adopted accounting guidance under Accounting Standards Codification (ASU) Topic 2014-09, "Revenue from Contracts with Customers" on a modified retrospective basis. Our current revenue streams are not affected under the new model and we did not recognize a cumulative effect adjustment as part of the modified retrospective method of adoption. Furthermore, the new accounting guidance will not materially impact the recognition of or the accounting

for disposition of hotels, since we primarily dispose of hotels to third parties in exchange for cash with few contingencies. As it relates to capitalization of costs to acquire customer contracts, the Company has elected to use the Financial Accounting Standards Board's ("FASB") practical expedient which allows us to expense costs to acquire customer contracts as they are incurred due to their short-term nature for a specified number of nights that never exceed one year. This guidance applies to all contracts as of the adoption date. The Company has applied all relevant disclosures of this standard.

Share-Based Compensation

We measure compensation expense for the restricted share awards based upon the fair market value of our common shares at the date of grant. The Company measures compensation expense for the LTIP and Class A Performance units based upon the Monte Carlo approach using volatility, dividend yield and a risk free interest rate in the valuation. Compensation expense is recognized on a straight-line basis over the vesting period and is included in general and administrative expense in the accompanying consolidated statements of operations. We pay dividends on vested and non-vested restricted shares, except for performance-based shares for which dividends on unvested shares are not paid until these shares are vested. The Company has also issued Class A Performance LTIP units from time to time as part of its compensation plan. Prior to vesting, holders of Class A Performance LTIP Units will not be entitled to vote their Class A Performance LTIP units. In addition, under the terms of the Class A Performance LTIP units, a holder of a Class A Performance LTIP unit will generally (i) be entitled to receive 10% of the distributions made on a common unit of the Operating Partnership during the period prior to vesting of such Class A Performance LTIP unit (the “Pre-Vesting Distributions”), (ii) be entitled, upon the vesting of such Class A Performance LTIP unit, to receive a special one-time “catch-up” distribution equal to the aggregate amount of distributions that were paid on a common unit during the period prior to vesting of such Class A Performance LTIP unit minus the aggregate amount of Pre-Vesting Distributions paid on such Class A Performance LTIP unit, and (iii) be entitled, following the vesting of such Class A Performance LTIP unit, to receive the same amount of distributions paid on a common unit of the Operating Partnership.

Income Taxes

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

Recently Issued Accounting Standards

On January 1, 2019, the Company adopted accounting guidance under Accounting Standards Codification (ASU) 2016-02 (“ASU 2016-02”), *Leases*, which relates to the accounting for leasing transactions. On February 25, 2016, the FASB issued updated accounting guidance 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). The new accounting guidance requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on whether or not the lease is effectively a financed purchase by the lessee. The classification of the lease will determine whether 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. We adopted the new accounting guidance on January 1, 2019 and applied it based on the optional transition method provided for, which allows entities to recognize a cumulative-effect adjustment to the balance sheet on the adoption date. Upon adoption, we applied the package of practical expedients made available under the new accounting guidance and also make an accounting policy election to not recognize right-of-use assets or lease liabilities for leases with terms of 12 months or less. For our ground lease agreements and corporate office lease agreement, all of which are currently accounted for as operating leases, we recognized lease liabilities of $25.7 million with corresponding right-of use assets of $23.1 million on our consolidated balance sheet as of January 1, 2019.

On January 1, 2018, the Company adopted accounting guidance under 2016-15 ("ASU 2016-15"), *Classification of Certain Cash Receipts and Cash Payments,* which clarifies and provides specific guidance on eight cash flow classification issues with an objective to reduce the current diversity in practice. The Company has certain cash payments and receipts related to debt extinguishment that are affected by the new standard. The Company has historically classified distributions received from equity method investments under the cumulative earnings approach. As such, there was no impact due to application of the new guidance. The Company applied the new guidance on a retrospective basis.

On January 1, 2018, the Company adopted accounting guidance under ASU 2016-18 ("ASU 2016-18"), *Restricted Cash,* which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. This standard addresses presentation of restricted cash in the consolidated statements of cash flows only. Restricted cash represents purchase price deposits held in escrow for potential hotel acquisitions under contract and escrow reserves such as reserves for capital expenditures, property taxes or insurance that are required pursuant to the Company's loans. The Company applied the new guidance on a retrospective basis.

On January 5, 2017, the FASB issued ASU 2017-01 ("ASU 2017-01"), *Definition of a Business,* which resulted in more acquisitions being accounted for as asset acquisitions across all industries, particularly real estate, pharmaceutical and oil and gas. Application of the changes also affect the accounting for disposal transactions. The changes to the definition of a business resulted in more of the Company's property acquisitions qualifying as asset acquisitions, which permits capitalization of acquisition costs. This standard was effective for public business entities with a calendar year end in 2018 and all other entities have an additional year to adopt. The Company adopted this guidance as of 2017. The adoption did not have a material impact on our consolidated financial statements.

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

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

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates. Rates take into consideration general market conditions, maturity and fair value of the underlying collateral. The estimated fair value of the Company's fixed rate debt at December 31, 2019 and December 31, 2018 was $501.5 million and $489.0 million, respectively.

At December 31, 2019, our consolidated debt was comprised of floating and fixed interest rate debt. The fair value of our fixed rate debt indicates the estimated principal amount of debt having the same debt service requirements that could have been borrowed at the date presented, at then current market interest rates. The following table provides information about the maturities of our financial instruments as of December 31, 2019 that are sensitive to changes in interest rates (dollars in thousands):

	2020	2021	2022	2023	2024	Thereafter	Total	Fair Value
Floating rate:								
Debt	—	—	90,000	—	—	—	$ 90,000	$ 90,000
Average interest rate (1)	—	—	4.31 %	$ —	—	—	4.31 %	
Fixed rate:								
Debt	$9,536	$21,979	$9,954	$143,084	$296,387	$15,920	$ 496,860	$ 501,481
Average interest rate	4.68 %	5.26 %	4.63 %	4.66 %	4.64 %	4.25 %	4.66 %	

1. Weighted average interest rate based on borrowings at LIBOR of 1.80% plus a margin of 1.65% and a prime rate of 4.75% plus a margin of 0.65% at December 31, 2019.

We estimate that a hypothetical 100 basis point increase in the variable interest rate would result in additional interest expense of approximately $0.9 million annually. This assumes that the amount outstanding under our floating rate debt remains $90.0 million, the balance as of December 31, 2019.

Item 8. Consolidated Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter of 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) and 15d- 15(f). A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control-Integrated Framework” (2013 framework). Based on this assessment, management has concluded that, as of December 31, 2019, our internal control over financial reporting is effective, based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2019, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears on page F-2 of this Annual Report on Form 10-K.

Item 9B. Other Information

None.

Part III

Item 10. Trustees, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be held on May 13, 2020.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be held on May 13, 2020.

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

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be held on May 13, 2020.

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

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be held on May 13, 2020.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be held on May 13, 2020.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

   Included herein at pages F-1 through F-7

2. Financial Statement Schedules

The following financial statement schedule is included herein at page F-40:

Schedule III - Real Estate and Accumulated Depreciation as of December 31, 2019

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

3. Exhibits

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

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Articles of Amendment and Restatement of Chatham Lodging Trust(12)
3.2	Second Amended and Restated Bylaws of Chatham Lodging Trust(1)
4.1	Description of the Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
10.1*	Chatham Lodging Trust Equity Incentive Plan, Amended and Restated as of May 17, 2013 (2)
10.2*	Employment Agreement between Chatham Lodging Trust and Jeffrey H. Fisher(12)
10.3*	Employment Agreement between Chatham Lodging Trust and Peter Willis(12)
10.4*	Employment Agreement between Chatham Lodging Trust and Dennis M. Craven(12)
10.5*	Employment Agreement between Chatham Lodging Trust and Jeremy Wegner(3)
10.6*	First Amendment to Employment Agreement of Peter Willis dated January 30, 2015(4)
10.7*	First Amendment to Employment Agreement of Dennis Craven dated January 30, 2015(4)
10.8*	Form of Indemnification Agreement between Chatham Lodging Trust and its officers and trustees(5)
10.9*	Form of LTIP Unit Vesting Agreement(5)
10.10*	Form of Share Award Agreement for Trustees(5)
10.11*	Form of Share Award Agreement for Officers(6)
10.12*	Share Award Agreement, dated as of June 1, 2015, between Chatham Lodging Trust and Jeremy Wegner(7)
10.13*	LTIP Unit Award Agreement, dated as of June 1, 2015, between Chatham Lodging Trust, Chatham Lodging, L.P. and Jeffrey Fisher (Outperformance Plan) (8)
10.14*	LTIP Unit Award Agreement, dated as of June 1, 2015, between Chatham Lodging Trust, Chatham Lodging, L.P. and Dennis Craven (Outperformance Plan) (8)
10.15*	LTIP Unit Award Agreement, dated as of June 1, 2015, between Chatham Lodging Trust, Chatham Lodging, L.P. and Peter Willis (Outperformance Plan) (8)
10.16	Agreement of Limited Partnership of Chatham Lodging, L.P.(5)
10.17	First Amendment to the Agreement of Limited Partnership of Chatham Lodging, L.P.(7)
10.18	Form of IHM Hotel Management Agreement(5)
10.19	Third Amended and Restated Limited Liability Company Agreement of INK Acquisition LLC, dated as of June 9, 2014, by and between Platform Member-T, LLC and Chatham Lodging, L.P.(9)
10.20	Second Amended and Restated Limited Liability Company Agreement of INK Acquisition III, LLC, dated as of June 9, 2014, by and between Platform Member Holdings-T Cam2, LLC and Chatham TRS Holding, Inc.(9)
10.21	Loan Agreement, dated as of June 9, 2014, between Grand Prix Sili II, LLC, as borrower, and JP Morgan Chase Bank, National Association, as lender.(9)
10.22	Limited Liability Company Agreement of IHP I Owner JV, LLC, dated as of November 17, 2014, by and between Platform Member II-T, LLC and Chatham IHP, LLC.(10)
10.23	Limited Liability Company Agreement of IHP I OPs JV, LLC, dated as of November 17, 2014, by and between Platform Member Holdings II-T Cam2, LLC and Chatham TRS Holding, Inc.(10)
10.24	Amended and Restated Credit Agreement, dated as of March 8, 2018, among Chatham Lodging Trust, Chatham Lodging, L.P., the lenders party thereto and Barclays Bank PLC, as administrative agent.
10.25*	Form of 2016 Time-Based LTIP Unit Award Agreement(12)
10.26*	Form of 2016 Performance-Based LTIP Unit Award Agreement(12)

10.27*	Form of 2017 Time-Based LTIP Unit Award Agreement(13)
10.28*	Form of 2017 Performance-Based LTIP Unit Award Agreement(13)
10.29	Sales Agreement, dated December 28, 2017, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Cantor Fitzgerald & Co.(14)
10.30	Sales Agreement, dated December 28, 2017, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Barclays Capital Inc.(14)
10.31	Sales Agreement, dated December 28, 2017, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and BTIG, LLC(14)
10.32	Sales Agreement, dated December 28, 2017, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Citigroup Global Markets Inc(14)
10.33	Sales Agreement, dated December 28, 2017, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Robert W. Baird & Co. Incorporated(14)
10.34	Sales Agreement, dated December 28, 2017, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Stifel, Nicolaus & Company, Incorporated(14)
10.35	Sales Agreement, dated December 28, 2017, by and among Chatham Lodging Trust, Chatham Lodging, L.P. and Wells Fargo Securities(14)
21.1	List of Subsidiaries of Chatham Lodging Trust
23.1	PricewaterhouseCoopers LLP Consent to include Report on Financial Statements of Chatham Lodging Trust
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	The instance document does not appear in the interactive data file because its inline XBRL tags are embedded within the inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the interactive date file because its XBRL tags are embedded within the inline XBRL document

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

** Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2019 and 2018; (ii) Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017; (iii) Consolidated Statements of Equity for the years ended December 31, 2019, 2018 and 2017; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; and (v) Notes to the Consolidated Financial Statements.

(1) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on April 21, 2015 (File No. 001-34693).

(2) Incorporated by reference to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 15, 2013 (File No. 001-34693).

(3) Incorporated by reference to the Registrant’s Current Report on Form 8-K filed with the SEC on May 5, 2015 (File No. 001-34693).

(4) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on February 5, 2015 (File No. 001-34693).

(5) Incorporated by reference to Amendment No. 4 to the Registrant’s Registration Statement on Form S-11 filed with the SEC on February 12, 2010 (File No. 333-162889).

(6) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 13, 2010 (File No. 001-34693).

(7) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2015 (File No. 001-34693).

(8) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2015 (File No. 001-34693).

(9) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014 (File No. 001-34693).

(10) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on November 30, 2014 (File No. 001-34693).

(11) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on November 30, 2015 (File No. 001-34693).

(12) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on February 29, 2016 (File No. 001-34693).

(13) Incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on May 9, 2017 (File No. 001-34693).

(14) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on December 28, 2017 (File No. 001-34693).

SIGNATURE

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

CHATHAM LODGING TRUST

Dated: February 26, 2020

/s/ JEFFREY H. FISHER

Jeffrey H. Fisher

Chairman of the Board, President and Chief Executive Officer

(Principal Executive Officer)

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

SIGNATURE	TITLE	DATE
/s/ JEFFREY H. FISHER Jeffrey H. Fisher	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 26, 2020
/s/ JEREMY B. WEGNER Jeremy B. Wegner	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2020
/s/ EDWIN B. BREWER, JR. Edwin B. Brewer, Jr.	Trustee	February 26, 2020
/s/ THOMAS J. CROCKER Thomas J. Crocker	Trustee	February 26, 2020
/s/ JACK P. DEBOER Jack P. DeBoer	Trustee	February 26, 2020
/s/ MARY ELIZABETH HIGGINS Mary Elizabeth Higgins	Trustee	February 26, 2020
/s/ ROBERT PERLMUTTER Robert Perlmutter	Trustee	February 26, 2020
/s/ ROLF E. RUHFUS Rolf E. Ruhfus	Trustee	February 26, 2020

CHATHAM LODGING TRUST

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Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Chatham Lodging Trust

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Chatham Lodging Trust and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, of equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and financial statement schedule listed in the index appearing under Item 15(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Management Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit

preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment of Investment in Hotel Properties

As described in Note 2 and Note 5 to the consolidated financial statements, as of December 31, 2019 the Company had a net investment in hotel properties of $1.3 billion. Management periodically reviews hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review by management include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management will perform an analysis to determine if the estimated undiscounted future cash flows, without interest charges, from operations and the proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value is recorded and an impairment loss recognized.

The principal considerations for our determination that performing procedures relating to the impairment of investment in hotel properties is a critical audit matter are there was significant judgment by management when developing the undiscounted future cash flows of the hotel properties. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate management's future cash flows and significant assumptions, including annual income and expense growth rates, terminal value capitalization rates, and probability weightings.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's hotel properties impairment analysis, including controls over the valuation of the hotel properties. These procedures also included, among others, testing management's process for developing the undiscounted future cash flows, evaluating the appropriateness of the model, evaluating the completeness of management's impairment analysis and whether there were any other indicators of impairment that were not considered by management, testing the completeness, accuracy, and relevance of underlying data used in the model, and evaluating the significant assumptions used by management, including the annual income and expense growth rates, terminal value capitalization rates, and probability weightings. Evaluating management's assumptions related to the annual income and expense growth rates, terminal value capitalization rates, and probability weightings involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit, (ii) the consistency with external market and industry data, (iii) historical marketing and disposition experience of the Company, and (iv) whether these assumptions were consistent with evidence obtained in other areas of the audit.

/s/ PricewaterhouseCoopers LLP
Fort Lauderdale, Florida
February 26, 2020

We have served as the Company's auditor since 2009.

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

	December 31, 2019	December 31, 2018
Assets:		
Investment in hotel properties, net	$ 1,347,116	$ 1,373,773
Investment in hotel properties under development	20,496	—
Cash and cash equivalents	6,620	7,192
Restricted cash	13,562	25,145
Investment in unconsolidated real estate entities	17,969	21,545
Right of use asset, net	21,270	—
Hotel receivables (net of allowance for doubtful accounts of $451 and $264, respectively)	4,626	4,495
Deferred costs, net	4,271	5,070
Prepaid expenses and other assets	2,615	2,431
Deferred tax asset, net	29	58
Total assets	$ 1,438,574	$ 1,439,709
Liabilities and Equity:		
Mortgage debt, net	$ 495,465	$ 501,782
Revolving credit facility	90,000	81,500
Accounts payable and accrued expenses	33,012	33,692
Distributions and losses in excess of investments of unconsolidated real estate entities	15,214	9,650
Lease liability, net	23,717	—
Distributions payable	6,142	5,667
Total liabilities	663,550	632,291
Commitments and contingencies (see note 14)		
Equity:		
Shareholders' Equity:		
Preferred shares, $0.01 par value, 100,000,000 shares authorized and unissued at December 31, 2019 and 2018	—	—
Common shares, $0.01 par value, 500,000,000 shares authorized; 46,928,445 and 46,537,031 shares issued and outstanding at December 31, 2019 and 2018, respectively	469	465
Additional paid-in capital	904,273	896,286
Retained earnings (distributions in excess of retained earnings)	(142,365)	(99,285)
Total shareholders' equity	762,377	797,466
Noncontrolling Interests:		
Noncontrolling interest in operating partnership	12,647	9,952
Total equity	775,024	807,418
Total liabilities and equity	$ 1,438,574	$ 1,439,709

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

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

	For the year ended December 31,		
	2019	2018	2017
Revenue:			
Room	$ 296,267	$ 295,897	$ 278,466
Food and beverage	9,824	8,880	6,255
Other	16,567	13,710	11,215
Cost reimbursements from unconsolidated real estate entities	5,670	5,743	5,908
Total revenue	328,328	324,230	301,844
Expenses:			
Hotel operating expenses:			
Room	65,270	63,877	59,151
Food and beverage	8,396	7,312	5,342
Telephone	1,638	1,766	1,647
Other hotel operating	4,039	3,296	2,886
General and administrative	25,641	25,567	23,639
Franchise and marketing fees	25,850	24,864	23,247
Advertising and promotions	6,043	6,227	5,380
Utilities	10,867	10,835	9,944
Repairs and maintenance	14,321	14,710	13,317
Management fees	10,822	10,754	9,898
Insurance	1,364	1,354	1,228
Total hotel operating expenses	174,251	170,562	155,679
Depreciation and amortization	51,505	48,169	46,292
Impairment loss	—	—	6,663
Property taxes, ground rent and insurance	24,717	23,678	20,916
General and administrative	14,077	14,120	12,825
Other charges	1,441	3,806	523
Reimbursable costs from unconsolidated real estate entities	5,670	5,743	5,908
Total operating expenses	271,661	266,078	248,806
Operating income before gain (loss) on sale of hotel property	56,667	58,152	53,038
Gain (loss) on sale of hotel property	(3,282)	(18)	3,327
Operating Income	53,385	58,134	56,365
Interest and other income	190	462	30
Interest expense, including amortization of deferred fees	(28,247)	(26,878)	(27,901)
Income (loss) from unconsolidated real estate entities	(6,448)	(876)	1,582
Income before income tax benefit (expense)	18,880	30,842	30,076
Income tax benefit (expense)	—	28	(396)
Net income	18,880	30,870	29,680
Net income attributable to non-controlling interest	(177)	(229)	(202)
Net income attributable to common shareholders	$ 18,703	$ 30,641	$ 29,478
Income per Common Share - Basic:			
Net income attributable to common shareholders (Note 11)	$ 0.39	$ 0.66	$ 0.73
Income per Common Share - Diluted:			
Net income attributable to common shareholders (Note 11)	$ 0.39	$ 0.66	$ 0.73
Weighted average number of common shares outstanding:			
Basic	46,788,784	46,073,515	39,859,143
Diluted	47,023,280	46,243,660	40,112,266
Distributions per common share:	$ 1.32	$ 1.32	$ 1.32

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

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

	Common Shares		Additional Paid - In Capital	Accumulated Deficit	Total Shareholders' Equity	Noncontrolling Interest in Operating Partnership	Total Equity
	Shares	Amount					
Balance January 1, 2017	38,367,014	380	722,019	(45,657)	676,742	4,848	681,590
Issuance of shares pursuant to Equity Incentive Plan	23,980	—	500	—	500	—	500
Issuance of shares, net of offering costs of $2,149	6,979,272	70	148,472	—	148,542	—	148,542
Issuance of restricted time-based shares	5,000	—	—	—	—	—	—
Amortization of share based compensation	—	—	815	—	815	2,469	3,284
Dividends declared on common shares ($1.32 per share)	—	—	—	(52,839)	(52,839)	—	(52,839)
Distributions declared on LTIP units ($1.32 per unit)	—	—	—	—	—	(977)	(977)
Reallocation of noncontrolling interest	—	—	(76)	—	(76)	76	—
Net income	—	—	—	29,478	29,478	202	29,680
Balance, December 31, 2017	45,375,266	450	871,730	(69,018)	803,162	6,618	809,780
Issuance of shares pursuant to Equity Incentive Plan	21,670	—	500	—	500	—	500
Issuance of shares, net of offering costs of $518	1,135,095	15	23,953	—	23,968	—	23,968
Issuance of restricted time-based shares	5,000	—	—	—	—	—	—
Amortization of share based compensation	—	—	103	—	103	3,607	3,710
Dividends declared on common shares ($1.32 per share)	—	—	—	(60,908)	(60,908)	—	(60,908)
Distributions declared on LTIP units ($1.32 per unit)	—	—	—	—	—	(1,154)	(1,154)
Forfeited distributions on LTIP units	—	—	—	—	—	652	652
Net income	—	—	—	30,641	30,641	229	30,870
Balance, December 31, 2018	46,537,031	$ 465	$ 896,286	$ (99,285)	$ 797,466	$ 9,952	$807,418
Issuance of shares pursuant to Equity Incentive Plan	27,870	—	500	—	500	—	500
Issuance of shares, net of offering costs of $209	363,544	4	7,087	—	7,091	—	7,091
Amortization of share based compensation	—	—	63	—	63	4,206	4,269
Dividends declared on common shares ($1.32 per share)	—	—	—	(61,783)	(61,783)	—	(61,783)
Distributions declared on LTIP units ($1.32 per unit)	—	—	—	—	—	(1,351)	(1,351)
Reallocation of noncontrolling interest	—	—	337	—	337	(337)	—
Net income	—	—	—	18,703	18,703	177	18,880
Balance, December 31, 2019	46,928,445	$ 469	$ 904,273	$ (142,365)	$ 762,377	$ 12,647	$775,024

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

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

	For the year ended December 31,		
	2019	**2018**	**2017**
Cash flows from operating activities:			
Net income	$ 18,880	$ 30,870	$ 29,680
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	51,258	47,932	46,060
Amortization of deferred franchise fees	247	237	217
Amortization of deferred financing fees included in interest expense	912	902	648
Loss (gain) on sale of hotel property	3,282	18	(3,327)
Impairment loss	—	—	6,663
Loss on write-off of deferred franchise fee	—	—	16
Deferred tax expense (benefit)	29	(28)	396
Share based compensation	4,719	4,210	3,784
Loss (income) from unconsolidated real estate entities	6,448	876	(1,582)
Distributions from unconsolidated entities	—	—	667
Changes in assets and liabilities:			
Right of use asset	613	—	—
Hotel receivables	(102)	(437)	353
Deferred costs	(17)	(243)	(935)
Prepaid expenses and other assets	(308)	64	356
Accounts payable and accrued expenses	664	1,814	3,693
Lease liability	(391)	—	—
Net cash provided by operating activities	86,234	86,215	86,689
Cash flows from investing activities:			
Improvements and additions to hotel properties	(35,859)	(31,417)	(30,233)
Investment in hotel properties under development	(12,224)	—	—
Acquisition of hotel properties, net of cash acquired	(8,171)	(70,020)	(138,248)
Proceeds from sale of hotel properties, net	8,987	—	12,555
Distributions from unconsolidated entities	2,692	5,036	2,551
Investment in unconsolidated real estate entities	—	—	(5,036)
Net cash used in investing activities	(44,575)	(96,401)	(158,411)
Cash flows from financing activities:			
Borrowings on revolving credit facility	74,500	149,000	129,000
Repayments on revolving credit facility	(66,000)	(99,500)	(149,500)
Payments on mortgage debt	(6,695)	(4,899)	(4,160)
Payments of financing costs	(48)	(955)	—
Payment of offering costs	(209)	(518)	(2,149)
Proceeds from issuance of common shares	7,298	24,486	150,691
Forfeited distributions - non vested shares	—	—	(94)
Distributions - common shares/units	(62,660)	(61,590)	(52,617)
Net cash provided by (used in) financing activities	(53,814)	6,024	71,171
Net change in cash, cash equivalents and restricted cash	(12,155)	(4,162)	(551)
Cash, cash equivalents and restricted cash, beginning of period	32,337	36,499	37,050
Cash, cash equivalents and restricted cash, end of period	$ 20,182	$ 32,337	$ 36,499
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 27,274	$ 25,328	$ 26,541
Capitalized interest	$ 445	$ —	$ —
Cash paid for income taxes	$ 748	$ 887	$ 710

Supplemental disclosure of non-cash investing and financing information:

On January 15, 2020, the Company issued 24,516 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2019. On January 16, 2019, the Company issued 27,870 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2018. On January 16, 2018, the Company issued 21,670 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2017.

As of December 31, 2019, the Company had accrued distributions payable of $6.1 million. These distributions were paid on January 31, 2020 except for $0.9 million related to accrued but unpaid distributions on unvested performance based shares (See Note 12). As of December 31, 2018, the Company had accrued distributions payable of $5.7 million. These distributions were paid on January 25, 2019 except for $0.5 million related to accrued but unpaid distributions on unvested performance based shares. As of December 31, 2017, the Company had accrued distributions payable of $5.8 million. These distributions were paid on January 26, 2018 except for $0.8 million related to accrued but unpaid distributions on unvested performance based shares.

Accrued share based compensation of $0.5 million, $0.5 million and $0.5 million is included in accounts payable and accrued expenses as of December 31, 2019, 2018 and 2017, respectively.

Accrued capital improvements of $3.8 million, $2.4 million and $2.4 million are included in accounts payable and accrued expenses as of December 31, 2019, 2018, and 2017 respectively.

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

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

1. Organization

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

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

As of December 31, 2019, the Company owned 40 hotels with an aggregate of 6,092 (unaudited) rooms located in 15 states and the District of Columbia (unaudited). As of December 31, 2019, the Company also (i) held a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with affiliates of Colony Capital, Inc. ("CLNY"), which was formed in the second quarter of 2014 to acquire 47 hotels from a joint venture (the "Innkeepers JV") between the Company and Cerberus Capital Management (“Cerberus”), comprising an aggregate of 5,948 (unaudited) rooms, (ii) held a 10.0% noncontrolling interest in a separate joint venture (the "Inland JV") with CLNY, which was formed in the fourth quarter of 2014 to acquire 48 hotels from Inland American Real Estate Trust, Inc. ("Inland"), comprising an aggregate of 6,402 (unaudited) rooms. We sometimes use the term, "JVs", which refers collectively to the NewINK JV and Inland JV.

To qualify as a REIT, the Company cannot operate its hotels. Therefore, the Operating Partnership and its subsidiaries lease the Company's wholly owned hotels to taxable REIT subsidiary lessees (“TRS Lessees”), which are wholly owned by the Company’s taxable REIT subsidiary (“TRS”) holding company. The Company indirectly (i) owns its 10.3% interest in 46 of the NewINK JV hotels and (ii) 10.0% interest in 48 of the Inland JV hotels. All of the NewINK JV hotels and Inland JV hotels are leased to TRS Lessees, in which the Company indirectly owns a noncontrolling interests through its TRS holding company. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation.

The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of December 31, 2019, Island Hospitality Management Inc. (“IHM”), which is 52.5% owned by Mr. Fisher, managed all 40 of the Company’s wholly owned hotels. As of December 31, 2019, all of the NewINK JV hotels were managed by IHM. As of December 31, 2019, 34 of the Inland JV hotels were managed by IHM and 14 hotels were managed by Marriott International, Inc. ("Marriott").

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Reclassifications

Certain prior period revenue and expense amounts in the consolidated financial statements have been reclassified to be comparable to the current period presentations. The reclassification did not have any impact on the net income. In addition, in accordance with the SEC's Disclosure Update and Simplification release, dated August 18, 2018, the Company moved the Gain (loss) on sale of hotel property line on the Company's Consolidated Statements of Operations within Operating income for all periods presented.

Use of Estimates

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

Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, hotel receivables, accounts payable and accrued expenses, distributions payable, mortgage debt and revolving credit facility. Due to their relatively short maturities, the carrying values reported in the consolidated balance sheets for these financial instruments approximate fair value except for mortgage debt and the revolving credit facility the fair value of which is separately disclosed in Note 7.

Investment in Hotel Properties

The Company allocates the purchase prices of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, identifiable intangible assets and assumed liabilities. In making estimates of fair value for purposes of allocating the purchase price, the Company utilizes a number of sources of information that are obtained in connection with the acquisition of a hotel property, including valuations performed by independent third parties and information obtained about each hotel property resulting from pre-acquisition due diligence. On January 1, 2017, the Company early adopted ASU 2017-01 "Definition of a Business" and all acquisitions since then qualified as an asset acquisition and all such acquisition costs have been capitalized.

The Company's investments in hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for land improvements, 5 to 20 years for building improvements and one to ten years for furniture, fixtures and equipment. Renovations and/or replacements at the hotel properties that improve or extend the life of the assets are capitalized and depreciated over their useful lives, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the Company's accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

The Company will periodically review its hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management will perform an analysis to determine if the estimated undiscounted future cash flows, without interest charges, from operations and the proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value is recorded and an impairment loss recognized. For the year ended December 31, 2017, the Company incurred an impairment loss on its Washington SHS, PA hotel (See footnote 5). For the years ended December 31, 2019 and 2018, there were no impairment losses.

For properties the Company considers held for sale, depreciation and amortization are no longer recorded and the value the properties is recorded at the lower of depreciated cost or fair value, less costs to sell. If circumstances arise that were previously considered unlikely, and, as a result, the Company decides not to sell a property previously classified as held for sale, the Company will reclassify such property as held and used. Such property is measured at the lower of its carrying amount (adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used) or fair value at the date of the subsequent decision not to sell. The Company classifies properties as held for sale when all criteria within the Financial Accounting Standards Board's ("FASB") guidance on disposal of long-lived assets are met. As of December 31, 2019 and 2018 the Company had no hotel properties held for sale.

Investment in Unconsolidated Real Estate Entities

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

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

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, the Company will estimate the fair value of the investment. The Company's estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred and is other than temporary, the loss will be measured as the excess of the carrying amount over the fair value of the Company's investment in the unconsolidated joint venture. As of December 31, 2019 and 2018, no NewINK or Inland JV investments were impaired.

The Company will periodically review its NewINK and Inland JV hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management will perform an analysis to determine if the estimated undiscounted future cash flows, without interest charges, from operations and the proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value is recorded and an impairment loss recognized. For the year ended December 31, 2019 the company impaired three hotels in the NewINK JV portfolio and one hotel in the Inland JV portfolio (See Note 6).

The Company evaluates the nature of the distributions from each of its unconsolidated joint ventures in order to classify the distributions as either operating activities or investing activities in the consolidated statements of cash flows. Any cash distribution that is considered to be a distribution of the earnings of the unconsolidated joint venture is presented as an operating activity in the consolidated statements of cash flows. Any cash distribution that is considered to be a return of capital from the unconsolidated joint venture is presented as an investing activity in the consolidated statements of cash flows.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash represents purchase price deposits held in escrow for potential hotel acquisitions under contract and escrows for reserves such as reserves for capital expenditures, property taxes or insurance that are required pursuant to the Company's loans or hotel management agreements. Restricted cash on the accompanying consolidated balance sheets at December 31, 2019 and 2018 is $13.6 million and $25.1 million, respectively.

Hotel Receivables

Hotel receivables consist of amounts owed by guests staying in the hotels and amounts due from business and group customers. An allowance for doubtful accounts is provided and maintained at a level believed to be adequate to absorb estimated probable losses. At December 31, 2019 and 2018, the allowance for doubtful accounts was $0.5 million and $0.3 million, respectively.

Deferred Costs

Deferred costs consist of franchise agreement application fees for the Company's hotels, costs associated with potential future acquisitions and loan costs related to the Company's senior unsecured revolving credit facility. Deferred costs consisted of the following at December 31, 2019 and 2018 (in thousands):

	December 31, 2019		December 31, 2018	
Loan costs	$	2,104	$	2,057
Franchise fees		4,409		4,471
Other		129		133
		6,642		6,661
Less accumulated amortization		(2,371)		(1,591)
Deferred costs, net	$	4,271	$	5,070

Franchise fees are recorded at cost and amortized over a straight-line basis over the term of the franchise agreements. For the years ended December 31, 2019, 2018 and 2017, amortization expense related to franchise fees of $0.2 million, $0.2 million and $0.2 million, respectively, is included in depreciation and amortization in the consolidated statements of operations. Amortization expense related to loan costs of $0.9 million, $0.9 million and $0.6 million for the years ended December 31, 2019, 2018 and 2017, respectively, is included in interest expense in the consolidated statements of operations.

Mortgage Debt, net

Mortgage debt, net consists of mortgage loans on certain hotel properties less the costs associated with acquiring those loans. Mortgage debt consisted of the following at December 31, 2019 and 2018 (in thousands):

	December 31, 2019		December 31, 2018	
Mortgage debt	$	496,860	$	503,555
Deferred financing costs		(1,395)		(1,773)
Mortgage debt, net	$	495,465	$	501,782

Deferred financing loan costs are recorded at cost and amortized over the term of the loan applying the effective interest rate method. For the years ended December 31, 2019, 2018 and 2017, amortization expense related to loan costs of $0.4 million, $0.4 million, $0.1 million, respectively, is included in interest expense in the consolidated statement of operations.

Prepaid Expenses and Other Assets

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

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

At times, certain of the Company's investments in unconsolidated entities' share of cumulative allocated losses and cash distributions received exceeds its cumulative allocated share of income and equity contributions. Although the Company typically does not make any guarantees of its investments in unconsolidated real estate entities other than certain customary non-recourse carve-out provisions, due to potential penalties along with potential upside from future financial returns, the Company generally intends to make any required capital contributions to maintain its ownership percentage and as such will record its share of cumulative allocated losses and cash distributions below zero. As a result, the carrying value of certain investments in unconsolidated entities is negative. Unconsolidated entities with negative carrying values are included in cash distributions and losses in excess of investments in unconsolidated entities in the Company's consolidated balance sheets.

Revenue Recognition

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

Share-Based Compensation

The Company measures compensation expense for the restricted share awards based upon the fair market value of its common shares at the date of grant. The Company measures compensation expense for the LTIP and Class A Performance units based upon the Monte Carlo approach using volatility, dividend yield and a risk free interest rate in the valuation. Compensation expense is recognized on a straight-line basis over the vesting period and is included in general and administrative expense in the accompanying consolidated statements of operations. The Company pays dividends on vested and non-vested restricted shares, except for performance-based shares, for which dividends on unvested shares are not paid until those shares are vested. The Company has also issued Class A Performance LTIP units from time to time as part of its compensation practices. Prior to vesting, holders of Class A Performance LTIP Units will not be entitled to vote their Class A Performance LTIP units. In addition, under the terms of the Class A Performance LTIP units, a holder of a Class A Performance LTIP unit will generally (i) be entitled to receive 10% of the distributions made on a common unit of the Operating Partnership during the period prior to vesting of such Class A Performance LTIP unit (the "Pre-Vesting Distributions"), (ii) be entitled, upon the vesting of such Class A Performance LTIP unit, to receive a special one-time "catch-up" distribution equal to the aggregate amount of distributions that were paid on a common unit during the period prior to vesting of such Class A Performance LTIP unit minus the aggregate amount of Pre-Vesting Distributions paid on such Class A Performance LTIP unit, and (iii) be entitled, following the vesting of such Class A Performance LTIP unit, to receive the same amount of distributions paid on a common unit of the Operating Partnership.

Earnings Per Share

A two class method is used to determine earnings per share. Basic earnings per share ("EPS") is computed by dividing net income (loss) available for common shareholders, adjusted for dividends on unvested share grants, by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) available for common shareholders, adjusted for dividends or distributions, on unvested share grants and LTIP units, by the weighted average number of common shares outstanding plus potentially dilutive securities such as share grants or shares issuable in the event of conversion of common units. No adjustment is made for shares that are anti-dilutive during the period. The Company's restricted share awards and LTIP units that are subject solely to time-based vesting conditions are entitled to receive dividends or distributions on the Company's common shares or the Operating Partnership's common units, respectively, if declared. In addition, dividends on the Class A Performance LTIP units are paid the equivalent of 10% of the declared dividends on the Company's common shares. The rights to these dividends or distributions declared are non-forfeitable. As a result, the unvested restricted shares and LTIP units that are subject solely to time-based vesting conditions, as well as 10% of the unvested Class A Performance LTIP units, qualify as participating securities requiring the allocation of earnings under the two-class method to calculate EPS. The percentage of earnings allocated to these participating securities is based on the proportion of the weighted average of these outstanding participating securities to the sum of the basic weighted average common shares outstanding and the weighted average of these outstanding participating securities. Basic EPS is then computed by dividing income less earnings allocable to these participating securities by the basic weighted average number of shares outstanding. Diluted EPS is computed similar to basic EPS, except the weighted average number of shares outstanding is increased to include the effect of potentially dilutive securities.

Income Taxes

The Company elected to be taxed as a REIT for federal income tax purposes. In order to qualify as a REIT under the Internal Revenue Code of 1986, as amended, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its shareholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent the Company distributes its REIT taxable income to its shareholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its REIT taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants the Company relief under certain statutory provisions.

The Company leases its wholly owned hotels to TRS Lessees, which are wholly owned by the Company's taxable REIT subsidiary (a "TRS") which, in turn is wholly owned by the Operating Partnership. Additionally, the Company indirectly owns its interest in the hotels owned by the NewINK JV (46 hotels) and the Inland JV (48 hotels) through the Operating Partnership. All of the NewINK JV hotels and Inland JV hotels are leased to TRS Lessees in which the Company indirectly owns a noncontrolling interests through its TRS holding company. The TRS is subject to federal and state income taxes and the Company accounts for taxes, where applicable, in accordance with the provisions of FASB Accounting Standards Codification 740 using the asset and liability method which recognizes deferred tax assets and liabilities for future tax consequences arising from differences between financial statement carrying amounts and income tax bases. On December 22, 2017, the Tax Cuts and Jobs Act, "TCJA" was enacted. The TCJA includes a number of changes to the existing U.S. tax code, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017. Changes in tax rates and tax laws are accounted for in the period of enactment. Therefore, as a result of the TCJA being signed into law, the net deferred tax assets before valuation allowance were reduced by $0.6 million with a corresponding net adjustment to current year tax expense for the remeasurement of the Company's U.S. net deferred tax assets in 2017. Our federal income tax expense for periods beginning in 2018 will be based on the new rate.

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and for net operating loss, capital loss and tax credit carryforwards. The deferred tax assets and liabilities are measured using the enacted income tax rates in effect for the year in which those temporary differences are expected to be realized or settled. The effect on the deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of all available evidence, including the future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.
The Company performs an annual review for any uncertain tax positions and, if necessary, will record the expected future tax consequences of uncertain tax positions in the consolidated financial statements.

As of December 31, 2019, the Company is no longer subject to U.S federal income tax examinations for years before 2016 and with few exceptions to state examinations before 2016. The Company evaluates whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Company has reviewed its tax positions for open tax years and has concluded no provision for income taxes is required in the Company's consolidated financial statements as of December 31, 2019. Interest and penalties related to uncertain tax benefits, if any, in the future will be recognized as operating expense.

During the third quarter of 2018, management was notified that the Company's TRS was going to be examined by the Internal Revenue Service for the tax year ended December 31, 2016. The examination remains open. The Company believes it does not need to record a liability related to matters contained in the tax period open to examination. However, should the Company experience an unfavorable outcome in the matter, such outcome could have a material impact on its results of operations, financial position and cash flows.

Leases

On January 1, 2019, the Company adopted accounting guidance under Accounting Standards Codification (ASU) 2016-02 ("ASU 2016-02"), *Leases*, which relates to the accounting for leasing transactions. On February 25, 2016, the FASB issued updated accounting guidance 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). The new accounting guidance requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on whether or not the lease is effectively a financed purchase by the lessee. The classification of the lease will determine whether 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. We adopted the new accounting guidance on January 1, 2019 and applied it based on the optional transition method provided for, which allows entities to recognize a cumulative-effect adjustment to the balance sheet on the adoption date. Upon adoption, we applied the package of practical expedients made available under the new accounting guidance and also make an accounting policy election to not recognize right-of-use assets or lease liabilities for leases with terms of 12 months or less. For our ground lease agreements and corporate office lease agreement, all of which are currently accounted for as operating leases, we recognized lease liabilities of $25.7 million with corresponding right-of use assets of $23.1 million on our consolidated balance sheet as of January 1, 2019.

Segment Information

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

Recently Issued Accounting Standards

On January 1, 2018, the Company adopted accounting guidance under Accounting Standards Codification (ASU) Topic 2014-09, "*Revenue from Contracts with Customers*" on a modified retrospective basis. Our current revenue streams are not affected under the new model and we did not recognize a cumulative effect adjustment as part of the modified retrospective method of adoption. Furthermore, the new accounting guidance will not materially impact the recognition of or the accounting for disposition of hotels, since we primarily dispose of hotels to third parties in exchange for cash with few contingencies. As it relates to capitalization of costs to acquire customer contracts, the Company has elected to use the Financial Accounting Standards Board's ("FASB") practical expedient which allows us to expense costs to acquire customer contracts as they are incurred due to their short-term nature for a specified number of nights that never exceed one year. This guidance applies to all contracts as of the adoption date. The Company has applied all relevant disclosures of this standard.

On January 1, 2018, the Company adopted accounting guidance under 2016-15 ("ASU 2016-15"), *Classification of Certain Cash Receipts and Cash Payments,* which clarifies and provides specific guidance on eight cash flow classification issues with an objective to reduce the current diversity in practice. The Company has certain cash payments and receipts related to debt extinguishment that are affected by the new standard. The Company has historically classified distributions received from equity method investments under the cumulative earnings approach. As such, there was no impact due to application of the new guidance. The Company applied the new guidance on a retrospective basis.

On January 1, 2018, the Company adopted accounting guidance under ASU 2016-18 ("ASU 2016-18"), *Restricted Cash,* which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. This standard addresses presentation of restricted cash in the consolidated statements of cash flows only. Restricted cash represents purchase price deposits held in escrow for potential hotel acquisitions under contract and escrow reserves such as reserves for capital expenditures, property taxes or insurance that are required pursuant to the Company's loans. The Company applied the new guidance on a retrospective basis.

In August 2018, the SEC issued SEC Final Rule 33-10532, Disclosure Update and Simplification. The amendments simplify or eliminate duplicative, overlapping, or outdated disclosure requirements. The amendments also add certain disclosure requirements, such as requiring entities to disclose the current and comparative quarter and year-to-date changes in shareholders' equity for interim periods. The amended rules are effective for reports filed on or after November 5, 2018. However, the SEC issued Compliance & Disclosure Interpretation 105.09 that allows entities to defer the adoption of the new disclosure requirement relating to changes in shareholders' equity for interim periods until the Form 10-Q for the quarterly period that begins after November 5, 2018. The Company adopted the new disclosure requirement relating to changes in shareholders' equity for interim periods on January 1, 2019. Based on the Company's assessment, the adoption of the new disclosures did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The guidance modifies the disclosure requirements for fair value measurements by removing or modifying some of the disclosures, while also adding new disclosures. The guidance is effective for annual reporting periods beginning after December 15, 2019, and the interim periods within those annual periods, with early adoption permitted. The Company will adopt this new standard on January 1, 2020. Based on the Company's assessment, the adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

3. Acquisition of Hotel Properties

Hotel Purchase Price Allocation

We acquired the Residence Inn Summerville ("RI Summerville") hotel in Summerville, SC for $20.8 million on August 27, 2018, the Dallas Downtown Courtyard ("Dallas DT") hotel in Dallas, TX for $49.0 million on December 5, 2018, the Hilton Garden Inn Portsmouth ("Portsmouth") hotel in Portsmouth, NH for $43.4 million on September 20, 2017, the Courtyard Summerville ("Summerville") hotel in Summerville, SC for $20.2 million on November 15, 2017 and the Embassy Suites Springfield Embassy ("Springfield") hotel in Springfield, VA for $68.1 million on December 6, 2017. The allocation of the purchase price of each of the hotels acquired by the Company, based on the fair value on the date of its acquisition, dollars (in thousands):

	RI Summerville	Dallas DT	HGI Portsmouth	CY Summerville	ES Springfield	Total
Acquisition date	8/27/2018	12/5/2018	9/20/2017	11/15/2017	12/6/2017	
Number of rooms (unaudited)	96	167	131	96	219	709
Land	$ 2,300	$ 2,900	$ 3,600	$ 2,500	$ 7,700	$ 19,000
Building and improvements	17,060	42,760	37,630	16,923	58,807	173,180
Furniture, fixtures and equipment	1,234	3,340	2,120	730	1,490	8,914
Cash	—	5	8	1	3	17
Accounts receivable	—	8	32	1	—	41
Prepaid expenses and other assets	—	68	12	28	129	237
Accounts payable and accrued expenses	(9)	(33)	(27)	(1)	(51)	(121)
Net assets acquired, net of cash	$ 20,585	$ 49,043	$ 43,367	$ 20,181	$ 68,075	$201,251

The value of the assets acquired was primarily based on a sales comparison approach (for land) and a depreciated replacement cost approach (for building and improvements and furniture, fixtures and equipment). The sales comparison approach uses inputs of recent land sales in the respective hotel markets. The depreciated replacement cost approach uses inputs of both direct and indirect replacement costs using a nationally recognized authority on replacement cost information as well as the age, square footage and number of rooms of the respective assets. Property acquisition costs of $0.1 million and $0.1 million, respectively, were capitalized in 2019 and 2018.

The amount of revenue and operating income from the hotels acquired in 2018 and 2017 from their respective date of acquisition through December 31, 2019 is as follows (in thousands):

		For the Year Ended December 31, 2019		For the Year Ended December 31, 2018	
	Acquisition Date	**Revenue**	**Operating Income**	**Revenue**	**Operating Income**
Hilton Garden Inn Portsmouth, NH	9/20/17	$ 9,660	$ 3,773	$ 9,160	$ 3,629
Courtyard Summerville, SC	11/15/17	3,846	1,302	3,969	1,261
Embassy Suites Springfield, VA	12/6/17	14,284	5,035	13,886	4,887
Residence Inn Summerville, SC	8/27/18	3,645	1,250	875	30
Courtyard Dallas Downtown, TX	12/5/18	7,833	2,479	258	(21)
Total		$ 39,268	$ 13,839	$ 28,148	$ 9,786

On August 29, 2017, the Company purchased a parcel of land in Los Angeles County, California for $6.5 million and a parcel of land in Silicon Valley, California on July 2, 2019 for $8.1 million.

4. Disposition of Hotel Properties

On May 7, 2019, the Company sold the Courtyard by Marriott hotel in Altoona, PA for $4.6 million and recognized a loss on the sale of the hotel property of $4.4 million. On May 15, 2019, the Company sold the SpringHill Suites by Marriott hotel in Washington, PA for $5.1 million and recognized a gain on the sale of the hotel property of $1.1 million. Proceeds from the sales were used to repay amounts outstanding on the Company's senior unsecured revolving credit facility. These sales did not represent a strategic shift that had or will have a major effect on the Company's operations and financial results, and therefore, did not qualify to be reported as discontinued operations.

On December 20, 2017, the Company sold the Homewood Suites by Hilton Carlsbad (North San Diego County) for $33.0 million and recognized a gain on sale of a hotel property of $3.3 million. The buyer assumed the mortgage loan secured by the hotel of $20.0 million. Proceeds from the sale were used to repay amounts outstanding on the Company's senior unsecured revolving credit facility. This sale did not represent a strategic shift that had or will have a major effect on the Company's operations and financial results, and therefore, did not qualify to be reported as discontinued operations.

During the years ended December 31, 2019, 2018 and 2017, the Company's consolidated statements of operations included operating income related to the disposed hotels as follows: (in thousands):

	Operating Income		
	For the years ended December 31,		
	2019	2018	2017
Homewood Suites Carlsbad	$ —	$ —	$ 2,791
Courtyard Altoona, PA	$ 24	$ 517	$ 743
SpringHill Suites Washington, PA	$ 198	$ 718	$ 433
Total	**$ 222**	**$ 1,235**	**$ 3,967**

5. Investment in Hotel Properties

Investment in hotel properties, net

Investment in hotel properties, net as of December 31, 2019 and 2018 consisted of the following (in thousands):

	December 31, 2019	December 31, 2018
Land and improvements	$ 296,884	$ 296,253
Building and improvements	1,216,849	1,214,780
Furniture, fixtures and equipment	81,707	73,411
Renovations in progress	31,589	25,370
	1,627,029	1,609,814
Less: accumulated depreciation	(279,913)	(236,041)
Investment in hotel properties, net	$ 1,347,116	$ 1,373,773

During the year ended December 31, 2017, the Company identified indicators of impairment at its Washington SHS, PA hotel, primarily due to decreased operating performance and continued economic weakness. As such, the Company was required to perform a test of recoverability. This test compared the sum of the estimated future undiscounted cash flows attributable to the hotel over our remaining anticipated holding period and its expected value upon disposition to our carrying value for the hotel. The Company determined that the estimated undiscounted future cash flow attributable to the hotel did not exceed its carrying value and an impairment existed. As a result, the Company recorded a $6.7 million impairment charge in the consolidated statements of operations during the year ended December 31, 2017. Fair value was determined based on a discounted cash flow model using our estimates of future cash flows and third-party market data, considered Level 3 inputs.

Investment in hotel properties under development

We are developing a hotel in Los Angeles, CA on a parcel of land owned by us. We have incurred $20.5 million of costs to date, which included $6.6 million of the land acquisition costs and $13.9 million of other development costs. We expect the total development costs for construction of the hotel to be approximately $65.0 million, which includes the cost of the land. We reclassified the $6.6 million of land acquisition costs from Land to Hotel Properties Under Development during the year ended December 31, 2019 in conjunction with the commencement of our development activities.

6. Investment in Unconsolidated Entities

On June 9, 2014, the Company acquired a 10.3% interest in the NewINK JV, a joint venture between affiliates of NorthStar Realty Finance Corp. ("NorthStar") and the operating partnership. The Company accounts for this investment under the equity method. NorthStar merged with Colony Capital, Inc. ("Colony") on January 10, 2017 to form a new company, CLNY, which owns an 89.7% interest and the Company owns a 10.3% interest in the NewINK JV. The values of NewINK JV assets and liabilities were adjusted to reflect estimated fair market values at the time Colony merged with NorthStar. As of December 31, 2019 and December 31, 2018, the Company's share of partners' capital in the NewINK JV is approximately $40.6 million and $47.5 million, respectively, and the total difference between the carrying amount of the investment and the Company's share of partners' capital is approximately $55.8 million and $57.1 million (for which the basis difference related to amortizing assets is being recognized over the life of the related assets as a basis difference adjustment). The Company serves as managing member of the NewINK JV. During the years ended December 31, 2019 and 2018, the Company received cash distributions from the NewINK JV as follows (in thousands):

	For the year ended December 31,	
	2019	2018
Cash generated from other activities and excess cash	$ 1,542	$ 3,186
Total	**$ 1,542**	**$ 3,186**

On November 17, 2014, the Company acquired a 10.0% interest in Inland JV, a joint venture between affiliates of NorthStar and the Operating Partnership. The Company accounts for this investment under the equity method. NorthStar merged with Colony Capital, Inc. ("Colony") on January 10, 2017 to form a new company, CLNY, which owns a 90.0% interest in the Inland JV. The values of Inland JV assets and liabilities were adjusted to reflect estimated fair market values at the time Colony merged with NorthStar. As of December 31, 2019 and 2018, the Company's share of partners capital in the Inland JV was approximately $28.4 million and $32.3 million, respectively, and the total difference between the carrying amount of the investment and the Company's share of partners' capital is approximately $10.4 million and $10.7 million, respectively (for which the basis difference related to amortizing assets is being recognized over the life of the related assets as a basis difference adjustment). The Company serves as managing member of the Inland JV. During the years ended December 31, 2019 and 2018, the Company received cash distributions from the Inland JV as follows (in thousands):

	For the year ended December 31,	
	2019	2018
Cash generated from other activities and excess cash	$ 1,150	$ 1,850
Total	**$ 1,150**	**$ 1,850**

On May 9, 2017, the NewINK JV refinanced the $840.0 million loan collateralized by the 47 hotels with a new $850.0 million loan with an interest rate of LIBOR plus a spread of 2.79% and had an initial maturity of June 7, 2019 and three one-year extension options. The NewINK JV exercised the first extension and the maturity was extended to June 7, 2020. On November 7, 2019, the NewINK JV refinanced the $850.0 million loan with a new $855.0 million, non-recourse loan from Morgan Stanley Bank, N.A. JPMorgan Chase Bank, National Association, and Bank of America, N.A. (collectively the "Lender"), collateralized by the 46 hotels. The new loan bears interest at a rate of LIBOR plus a spread of 2.82%, has an initial maturity of November 7, 2021 and five one-year extension options.

On June 9, 2017, the Inland JV refinanced the $817.0 million loan collateralized by the 48 hotels with a new $780.0 million non-recourse loan with Column Financial, Inc. On June 9, 2017, the Company contributed an additional $5.0 million of capital related to its share in the Inland JV to reduce the debt collateralized by the 48 hotels. The new loan bears interest at a rate of LIBOR plus a spread of 3.3%, has an initial maturity of July 9, 2019 and three one-year extension options. The Inland JV exercised the first extension and the maturity was extended to July 7, 2020.

The Company's ownership interests in the JVs are subject to change in the event that either the Company or CLNY calls for additional capital contributions to the respective JVs necessary for the conduct of business, including contributions to fund costs and expenses related to capital expenditures. In connection with (i) the non-recourse mortgage loan secured by the NewINK JV properties and the related non-recourse mezzanine loans secured by the membership interests in the owners of the NewINK JV properties and (ii) the non-recourse mortgage loan secured by the Inland JV properties, the Operating Partnership provided the applicable lenders with customary environmental indemnities, as well as guarantees of certain customary non-recourse carveout provisions such as fraud, material and intentional misrepresentations and misapplication of funds. In some circumstances, such as the bankruptcy of the applicable borrowers, the guarantees are for the full amount of the outstanding debt, but in most circumstances, the guarantees are capped at 15% of the debt outstanding at the time in question (in the case of the NewINK JV loans) or 20% of the debt outstanding at the time in question (in the case of the Inland JV loans). In connection with each of the NewINK JV and Inland JV loans, the Operating Partnership has entered into a contribution agreement with its JV partner whereby the JV partner is, in most cases, responsible to cover such JV partner's pro rata share of any amounts due by the Operating Partnership under the applicable guarantees and environmental indemnities. The Company manages the JVs and will receive a promote interest in each applicable JV if it meets certain return thresholds for such JV. CLNY may also approve certain actions by the JVs without the Company's consent, including certain property dispositions conducted at arm's length, certain actions related to the restructuring of the applicable JV and removal of the Company as managing member in the event the Company fails to fulfill its material obligations under the applicable joint venture agreement.

The Company's investments in the NewInk JV and the Inland JV are $(15.2) million and $18.0 million, respectively, at December 31, 2019. The following tables sets forth the total assets, liabilities, equity and components of net income (loss), including the Company's share, related to all JVs for the years ended December 31, 2019, 2018 and 2017 (in thousands):

Balance Sheet			
	December 31, 2019	**December 31, 2018**	**December 31, 2017**
Assets			
Investment in hotel properties, net	$ 2,221,718	$ 2,309,396	$ 2,363,726
Other assets	104,560	118,600	130,910
Total Assets	$ 2,326,278	$ 2,427,996	$ 2,494,636
Liabilities			
Mortgages and notes payable, net	$ 1,612,217	$ 1,606,334	$ 1,597,351
Other Liabilities	34,948	37,051	38,773
Total Liabilities	1,647,165	1,643,385	1,636,124
Equity			
Chatham Lodging Trust	69,008	79,744	87,326
Joint Venture Partner	610,105	704,867	771,186
Total Equity	679,113	784,611	858,512
Total Liabilities and Equity	$ 2,326,278	$ 2,427,996	$ 2,494,636

	For the year ended December 31,		
	2019	2018	2017
Revenue	$ 496,485	$ 498,507	$ 487,174
Total hotel operating expenses	329,879	329,756	294,280
Hotel operating income	$ 166,606	$ 168,751	$ 192,894
Impairment loss	$ 41,132	$ —	$ —
Net loss from continuing operations	$ (76,869)	$ (24,400)	$ (107)
Loss on sale of hotels	$ (2,129)	$ —	$ —
Net loss	**$ (78,998)**	**$ (24,400)**	**$ (107)**
(Loss) income allocable to the Company	$ (8,044)	$ (2,472)	$ 7
Basis difference adjustment	$ 1,596	$ 1,596	$ 1,575
Total (loss) income from unconsolidated real estate entities attributable to Chatham	**$ (6,448)**	**$ (876)**	**$ 1,582**

7. Debt

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

Loan/Collateral	Interest Rate	Maturity Date	12/31/19 Property Carrying Value	Balance Outstanding as of December 31, 2019	December 31, 2018
Senior Unsecured Revolving Credit Facility (1)	4.31 %	March 8, 2022	$ —	$ 90,000	$ 81,500
Residence Inn by Marriott New Rochelle, NY	5.75 %	September 1, 2021	18,756	12,936	13,361
Residence Inn by Marriott San Diego, CA	4.66 %	February 6, 2023	44,939	27,272	27,885
Homewood Suites by Hilton San Antonio, TX	4.59 %	February 6, 2023	29,914	15,563	15,916
Residence Inn by Marriott Vienna, VA	4.49 %	February 6, 2023	32,006	21,291	21,782
Courtyard by Marriott Houston, TX	4.19 %	May 6, 2023	31,158	17,559	17,976
Hyatt Place Pittsburgh, PA	4.65 %	July 6, 2023	34,941	21,520	21,989
Residence Inn by Marriott Bellevue, WA	4.97 %	December 6, 2023	64,015	43,857	44,680
Residence Inn by Marriott Garden Grove, CA	4.79 %	April 6, 2024	38,793	32,053	32,620
Residence Inn by Marriott Silicon Valley I, CA	4.64 %	July 1, 2024	79,377	64,406	64,800
Residence Inn by Marriott Silicon Valley II, CA	4.64 %	July 1, 2024	85,006	70,270	70,700
Residence Inn by Marriott San Mateo, CA	4.64 %	July 1, 2024	64,718	48,305	48,600
Residence Inn by Marriott Mountain View, CA	4.64 %	July 1, 2024	52,677	37,670	37,900
SpringHill Suites by Marriott Savannah, GA	4.62 %	July 6, 2024	34,567	29,817	30,000
Hilton Garden Inn Marina del Rey, CA	4.68 %	July 6, 2024	39,200	20,931	21,355
Homewood Suites by Hilton Billerica, MA	4.32 %	December 6, 2024	13,956	15,693	15,965
Hampton Inn & Suites Houston Medical Cntr., TX	4.25 %	January 6, 2025	16,410	17,717	18,026
Total debt before unamortized debt issue costs			**$ 680,433**	**$ 586,860**	**$ 585,055**
Unamortized mortgage debt issue costs				(1,395)	(1,773)
Total debt outstanding				**585,465**	**583,282**

1. The interest rate for the senior unsecured revolving credit facility is variable and based on LIBOR plus an applicable margin ranging from 1.55% to 2.3%, or prime plus an applicable margin of 0.55% to 1.3%.

On March 8, 2018, we refinanced our senior unsecured credit facility that was scheduled to mature in 2020 with a new facility having a maturity date in March 2023, which includes the option to extend the maturity by an additional year. Borrowing costs have been reduced by 0 to 15 basis points from comparable leverage-based pricing levels in our previous credit facility. At December 31, 2019 current leverage level, the borrowing cost under the new facility is LIBOR plus 1.65 percent. We were in compliance with all financial covenants at December 31, 2019.

At December 31, 2019 and 2018, the Company had $90.0 million and $81.5 million, respectively, of outstanding borrowings under its senior unsecured revolving credit facility. At December 31, 2019, the maximum borrowing availability under the senior unsecured revolving credit facility was $250.0 million.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates. All of the Company's mortgage loans are fixed-rate. Rates take into consideration general market conditions, quality and estimated value of collateral and maturity of debt with similar credit terms and are classified within level 3 of the fair value hierarchy. The estimated fair value of the Company’s fixed rate debt as of December 31, 2019 and 2018 was $501.5 million and $489.0 million, respectively.

The Company estimates the fair value of its variable rate debt by taking into account general market conditions and the estimated credit terms it could obtain for debt with a similar maturity and that is classified within level 3 of the fair value hierarchy. As of December 31, 2019, the Company’s only variable rate debt is under its senior unsecured revolving credit facility. The estimated fair value of the Company’s variable rate debt as of December 31, 2019 and 2018 was $90 million and $81.5 million, respectively.

As of December 31, 2019, the Company was in compliance with all of its financial covenants. At December 31, 2019, the Company’s consolidated fixed charge coverage ratio was 3.0 and the bank covenant is 1.5. Future scheduled principal payments of debt obligations as of December 31, 2019, for each of the next five calendar years and thereafter are as follows (in thousands):

	Amount
2020	$ 9,536
2021	21,979
2022	99,954
2023	143,084
2024	296,387
Thereafter	15,920
Total debt before unamortized debt issue costs	**$ 586,860**
Unamortized mortgage debt issue costs	**(1,395)**
Total debt outstanding	**$ 585,465**

8. Income Taxes

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

	For the year ended December 31,		
	2019	**2018**	**2017**
Current:			
Federal	$ (29)	$ —	$ —
State	—	—	—
Current tax expense (benefit)	$ (29)	$ —	$ —
Deferred:			
Federal	29	(28)	350
State	—	—	46
Deferred tax expense (benefit)	29	(28)	396
Total tax expense (benefit)	$ —	$ (28)	$ 396

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

	For the year ended December 31,		
	2019	**2018**	**2017**
Book loss before income taxes of the TRS	$ (8,167)	$ (6,040)	$ (4,261)
Statutory rate of 21% for 2018 and after and 34% for prior years applied to pre-tax income	$ (1,715)	$ (1,268)	$ (1,449)
Effect of state and local income taxes, net of federal tax benefit	(347)	(200)	(108)
Tax reform impact	—	—	644
Provision to return adjustment	—	—	5
Permanent adjustments	8	12	13
Change in valuation allowance	2,100	1,456	1,289
Valuation allowance release	—	(28)	—
Other	(46)	—	2
Total income tax (benefit) expense	$ —	$ (28)	$ 396
Effective tax rate	— %	0.46 %	(9.29)%

On December 22, 2017, the TCJA was enacted. The TCJA includes a number of changes to the existing U.S. tax code, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017. Changes in tax rates and tax laws are accounted for in the period of enactment. Therefore, as a result of the TCJA being signed into law, the net deferred tax assets before valuation allowance were reduced by $0.6 million with a corresponding net adjustment to current year tax expense for the remeasurement of the Company's U.S. net deferred tax assets in 2017. Our federal income tax expense for periods beginning in 2018 will be based on the new rate.

At December 31, 2019, our TRS had a net deferred tax asset associated with future tax credits of $29 thousand. At December 31, 2019 and 2018, the Company had valuation allowances against certain deferred tax assets totaling $5.6 million and $3.3 million, respectively. The increase in valuation allowance was primarily from the increase in the net operating losses incurred during the year. The tax effect of each type of temporary difference and carry forward that gives rise to the deferred tax asset as of December 31, 2019 and 2018 are as follows (in thousands):

	For the year ended December 31,	
	2019	**2018**
Total deferreds:		
Allowance for doubtful accounts	$ 117	$ 68
Accrued compensation	870	731
AMT credit	29	58
Total book to tax difference in partnership	(103)	(193)
Net operating loss	4,741	2,654
Valuation allowance	(5,625)	(3,260)
Net deferred tax asset	**$ 29**	**$ 58**

As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of net deferred tax assets. The Company's TRS is expecting continued taxable losses in 2020. As of December 31, 2019, the TRS continues to recognize a full valuation allowance equal to 100% of the net deferred tax assets, with the exception of the AMT tax credit, due to the uncertainty of the TRS's ability to utilize these net deferred tax assets. Management will continue to monitor the need for a valuation allowance.

9. Dividends Declared and Paid

The Company declared regular common share dividends of $1.32 per share and distributions on LTIP units of $1.32 per unit for the year ended December 31, 2019. The dividends and distributions and their tax characterization were as follows:

	Record Date	Payment Date	Common share distribution amount	LTIP unit distribution amount	Taxable Ordinary Income	Return of Capital	Section 199A Dividends
January	1/31/2019	2/22/2019	$ 0.11	$ 0.11	$ 0.0847	$ 0.0253	$ 0.0847
February	2/28/2019	3/29/2019	0.11	0.11	0.0847	0.0253	0.0847
March	3/29/2019	4/26/2019	0.11	0.11	0.0847	0.0253	0.0847
1st Quarter 2019			**$ 0.33**	**$ 0.33**	**$ 0.2541**	**$ 0.0759**	**$ 0.2541**
April	4/30/2019	5/31/2019	$ 0.11	$ 0.11	$ 0.0847	$ 0.0253	$ 0.0847
May	5/31/2019	6/28/2019	0.11	0.11	0.0847	0.0253	0.0847
June	6/28/2019	7/26/2019	0.11	0.11	0.0847	0.0253	0.0847
2nd Quarter 2019			**$ 0.33**	**$ 0.33**	**$ 0.2541**	**$ 0.0759**	**$ 0.2541**
July	7/31/2019	8/30/2019	$ 0.11	$ 0.11	$ 0.0847	$ 0.0253	$ 0.0847
August	8/30/2019	9/27/2019	0.11	0.11	0.0847	0.0253	0.0847
September	9/30/2019	10/25/2019	0.11	0.11	0.0847	0.0253	0.0847
3rd Quarter 2019			**$ 0.33**	**$ 0.33**	**$ 0.2541**	**$ 0.0759**	**$ 0.2541**
October	10/31/2019	11/29/2019	$ 0.11	$ 0.11	$ 0.0847	$ 0.0253	$ 0.0847
November	11/29/2019	12/27/2019	0.11	0.11	0.0847	0.0253	0.0847
December	12/31/2019	1/31/2020	0.11	0.11	0.0847	0.0253	0.0847
4th Quarter 2019			**$ 0.33**	**$ 0.33**	**$ 0.2541**	**$ 0.0759**	**$ 0.2541**
Total 2019			**$ 1.32**	**$ 1.32**	**$ 1.0164**	**$ 0.3036**	**$ 1.0164**

	Record Date	Payment Date	Common share distribution amount	LTIP unit distribution amount	Taxable Ordinary Income	Return of Capital	Section 199A Dividends
January	1/31/2018	2/23/2018	$ 0.11	$ 0.11	$ 0.0954	$ 0.0146	$ 0.0954
February	2/28/2018	3/30/2018	0.11	0.11	0.0954	0.0146	0.0954
March	3/29/2018	4/27/2018	0.11	0.11	0.0954	0.0146	0.0954
1st Quarter 2018			**$ 0.33**	**$ 0.33**	**$ 0.2862**	**$ 0.0438**	**$ 0.2862**
April	4/30/2018	5/25/2018	$ 0.11	$ 0.11	$ 0.0954	$ 0.0146	$ 0.0954
May	5/31/2018	6/29/2018	0.11	0.11	0.0954	0.0146	0.0954
June	6/29/2018	7/27/2018	0.11	0.11	0.0954	0.0146	0.0954
2nd Quarter 2018			**$ 0.33**	**$ 0.33**	**$ 0.2862**	**$ 0.0438**	**$ 0.2862**
July	7/31/2018	8/31/2018	$ 0.11	$ 0.11	$ 0.0954	$ 0.0146	$ 0.0954
August	8/31/2018	9/28/2018	0.11	0.11	0.0954	0.0146	0.0954
September	9/28/2018	10/26/2018	0.11	0.11	0.0954	0.0146	0.0954
3rd Quarter 2018			**$ 0.33**	**$ 0.33**	**$ 0.2862**	**$ 0.0438**	**$ 0.2862**
October	10/31/2018	11/30/2018	$ 0.11	$ 0.11	$ 0.0954	$ 0.0146	$ 0.0954
November	11/30/2018	12/28/2018	0.11	0.11	0.0954	0.0146	0.0954
December	12/31/2018	1/25/2019	0.11	0.11	0.0954	0.0146	0.0954
4th Quarter 2018			**$ 0.33**	**$ 0.33**	**$ 0.2862**	**$ 0.0438**	**$ 0.2862**
Total 2018			**$ 1.32**	**$ 1.32**	**$ 1.1448**	**$ 0.1752**	**$ 1.1448**

For the year ended December 31, 2019, approximately 77.0% of the distributions paid to stockholders were considered ordinary income and approximately 23.0% were considered return of capital. For the year ended December 31, 2018, approximately 86.7% of the distributions paid to stockholders were considered ordinary income and approximately 13.3% were considered return of capital.

10. Shareholders' Equity

Common Shares

The Company is authorized to issue up to 500,000,000 common shares of beneficial interest, $.01 par value per share ("common shares"). Each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders. Holders of the Company's common shares are entitled to receive dividends when authorized by the Company's Board of Trustees. As of December 31, 2019, 46,928,445 common shares were outstanding.

In January 2014, we established a $25 million dividend and reinvestment and stock purchase plan (the "Prior DRSPP"). We filed a new $50 million shelf registration statement for the dividend reinvestment and stock purchase plan (the "New DRSPP" and together with the Prior DRSPP, the "DRSPPs") on December 28, 2017 to replace the prior expiring program. Under the DRSPPs, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company's common shares. Shareholders may also make optional cash purchases of the Company's common shares subject to certain limitations detailed in the prospectuses for the DRSPPs. During the year ended December 31, 2019, we issued 259,954 shares under the New DRSPP at a weighted average price of $20.09, which generated $5.2 million of proceeds. As of December 31, 2019 and December 31, 2018, respectively, we had issued 1,768,000 and 1,508,046 shares under the DRSPPs at a weighted average price of $21.33 and $21.55 per share, respectively. As of December 31, 2019, there were common shares having a maximum aggregate sales price of approximately $27.9 million available for issuance under the New DRSPP.

In January 2014, the Company established the Prior ATM Plan whereby, from time to time, the Company may publicly offer and sell up to $50 million of its common shares by means of ordinary brokers' transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933. We filed a $100 million registration statement for a new ATM program (the "ATM Plan" and together with the Prior ATM Plan, the "ATM Plans") on December 28, 2017 to replace the prior program. At the same time, the Company entered into sales agreements with Cantor Fitzgerald & Co. ("Cantor"), Barclays Capital Inc. ("Barclays"), Robert W. Baird & Co. Incorporated ("Baird"), BTIG, LLC ("BTIG"), Citigroup Global Markets Inc. ("Citigroup"), Stifel, Nicolaus & Company, Incorporated ("Stifel") and Wells Fargo Securities, LLC ("Wells Fargo") as sales agents. During the year ended December 31, 2019, we issued 103,590 shares under the ATM Plan at a weighted average price of $20.05, which generated $2.1 million of proceeds. As of December 31, 2019 and December 31, 2018, respectively, we had issued 2,602,260 and 2,498,670 shares under the ATM Plans at a weighted average price of $21.76 and $21.83 per share, respectively, in addition to the offerings above. As of December 31, 2019, there were common shares having a maximum aggregate sales price of approximately $90.4 million available for issuance under the ATM Plan.

Preferred Shares

The Company is authorized to issue up to 100,000,000 preferred shares, $.01 par value per share. No preferred shares were outstanding at December 31, 2019 and 2018.

Operating Partnership Units

Holders of common units in the Operating Partnership, if and when issued, will have certain redemption rights, which will enable the unit holders to cause the Operating Partnership to redeem their units in exchange for, at the Company's option, cash per unit equal to the market price of the Company's common shares at the time of redemption or for the Company's common shares on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of share splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of limited partners or shareholders. As of December 31, 2019 and 2018, there were no Operating Partnership common units held by unaffiliated third parties.

11. Earnings Per Share

The two class method is used to determine earnings per share because unvested restricted shares and unvested LTIP units are considered to be participating shares. The LTIP units held by the non-controlling interest holders, which may be converted to common shares of beneficial interest, have been excluded from the denominator of the diluted earnings per share calculation as there would be no effect on the amounts since limited partners' share of income or loss would also be added back to net income or loss. Unvested restricted shares, unvested long-term incentive plan units and unvested Class A Performance LTIP units that could potentially dilute basic earnings per share in the future would not be included in the computation of diluted loss per share for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented. The following is a reconciliation of the amounts used in calculating basic and diluted net income per share (in thousands, except share and per share data):

	For the year ended December 31,		
	2019	2018	2017
Numerator:			
Net income	$ 18,703	$ 30,641	$ 29,478
Dividends paid on unvested shares and LTIP units	(297)	(310)	(235)
Net income attributable to common shareholders	$ 18,406	$ 30,331	$ 29,243
Denominator:			
Weighted average number of common shares - basic	46,788,784	46,073,515	39,859,143
Effect of dilutive securities:			
Unvested shares	234,496	170,145	253,123
Weighted average number of common shares - diluted	47,023,280	46,243,660	40,112,266
Basic income per Common Share:			
Net income attributable to common shareholders per weighted average common share	$ 0.39	$ 0.66	$ 0.73
Diluted income per Common Share:			
Net income attributable to common shareholders per weighted average common share	$ 0.39	$ 0.66	$ 0.73

12. Equity Incentive Plan

The Company maintains its Equity Incentive Plan to attract and retain independent trustees, executive officers and other key employees and service providers. The plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units, and other equity-based awards. The plan was amended and restated as of May 17, 2013 to increase the maximum number of shares available under the plan to 3,000,000 shares. Share awards under this plan generally vest over three to five years, though compensation for the Company's independent trustees includes shares granted that vest immediately. The Company pays dividends on unvested shares and units, except for performance-based shares and outperformance based units, for which dividends on unvested performance-based shares and units are accrued and not paid until those shares or units vest. Certain awards may provide for accelerated vesting if there is a change in control. As of December 31, 2019, there were 1,150,806 common shares available for issuance under the Equity Incentive Plan.

Restricted Share Awards

From time to time, the Company may award restricted shares under the Equity Incentive Plan as compensation to officers, employees and non-employee trustees. The Company recognizes compensation expense for the restricted shares on a straight-line basis over the vesting period based on the fair market value of the shares on the date of issuance.

A summary of the Company's restricted share awards for the years ended December 31, 2019, 2018 and 2017 is as follows:

	December 31, 2019		December 31, 2018		December 31, 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
Non-vested at beginning of the period	8,334	$ 18.52	57,514	$ 23.78	110,825	$ 22.05
Granted	—	—	5,000	17.40	5,000	20.20
Vested	(3,333)	18.80	(30,084)	26.24	(32,441)	25.77
Forfeited	—	—	(24,096)	21.21	(25,870)	13.17
Unvested at end of the period	5,001	$ 18.33	8,334	$ 18.52	57,514	$ 23.78

As of December 31, 2019 and 2018, there were $0.1 million and $0.1 million, respectively, of unrecognized compensation costs related to restricted share awards. As of December 31, 2019, these costs were expected to be recognized over a weighted–average period of approximately 2.0 years. For the years ended December 31, 2019, 2018 and 2017, the Company recognized approximately $0.1 million, $0.1 million and $0.8 million, respectively, of expense related to the restricted share awards. This expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

Long-Term Incentive Plan Awards

LTIP units are a special class of partnership interests in the Operating Partnership which may be issued to eligible participants for the performance of services to or for the benefit of the Company. Under the Equity Incentive Plan, each LTIP unit issued is deemed equivalent to an award of one common share thereby reducing the number of shares available for other equity awards on a one-for-one basis.

A summary of the Company's LTIP unit awards for the years ended years ended December 31, 2019, 2018 and 2017 is as follows:

	December 31, 2019			December 31, 2018			December 31, 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
Non-vested at beginning of the period	476,398	$	17.73	482,056	$	16.58	295,551	$	14.36
Granted	221,853		18.73	244,917	$	16.94	223,922	$	19.20
Vested	(99,931)		16.55	(67,275)	$	16.42	(37,417)	$	14.73
Forfeited	—		—	(183,300)	$	14.13	—	$	—
Non-vested at end of period	598,320	$	18.30	476,398	$	17.73	482,056	$	16.58

Outperformance Plan LTIP Awards

On June 1, 2015, the Company's Operating Partnership granted 183,300 Class A Performance LTIP units, as recommended by the Compensation Committee of the Board (the "Compensation Committee"), pursuant to long-term, multi-year performance plan (the "Outperformance Plan"). As of June 1, 2018, the Class A Performance LTIP units did not meet the required market based Total Shareholder Return ("TSR") measurements and therefore, the accrued dividends and units have been forfeited. The Company will continue to amortize the remaining expense related to these awards through June 2020 due to the awards being market based.

Time-Based LTIP Awards

On March 1, 2019, the Company’s Operating Partnership, upon the recommendation of the Compensation Committee, granted 88,746 time-based awards (the “2019 Time-Based LTIP Unit Award”). The grants were made pursuant to award agreements that provide for time-based vesting (the "LTIP Unit Time-Based Vesting Agreement").

Time-Based LTIP Unit Awards will vest ratably provided that the recipient remains employed by the Company through the applicable vesting date, subject to acceleration of vesting in the event of the recipient’s death, disability, termination without cause or resignation with good reason, or in the event of a change of control of the Company). Prior to vesting, a holder is entitled to receive distributions on the LTIP Units that comprise the 2019 Time-Based LTIP Unit Awards and the prior year LTIP unit Awards set forth in the table above.

Performance-Based LTIP Awards

On March 1, 2019, the Company’s Operating Partnership, upon the recommendation of the Compensation Committee, also granted 133,107 performance-based awards (the "2019 Performance-Based LTIP Unit Awards"). The grants were made pursuant to award agreements that have market based vesting conditions. The Performance-Based LTIP Unit Awards are comprised of Class A Performance LTIP units that will vest only if and to the extent that (i) the Company achieves certain long-term market based TSR criteria established by the Compensation Committee and (ii) the recipient remains employed by the Company through the applicable vesting date, subject to acceleration of vesting in the event of the recipient’s death, disability, termination without cause or resignation with good reason, or in the event of a change of control of the Company. Compensation expense is based on an estimated value of $18.91 per 2019 Performance-Based LTIP Unit Award, which takes into account that some or all of the awards may not vest if long-term market based TSR criteria are not met during the vesting period.

The 2019 Performance-Based LTIP Unit Awards may be earned based on the Company's relative TSR performance for the three-year period beginning on March 1, 2019 and ending on February 28, 2022. The 2019 Performance-Based LTIP Unit Awards, if earned, will be paid out between 50% and 150% of target value as follows:

	Relative TSR Hurdles (Percentile)	Payout Percentage
Threshold	25th	50%
Target	50th	100%
Maximum	75th	150%

Payouts at performance levels in between the hurdles will be calculated by straight-line interpolation.

The Company estimated the aggregate compensation cost to be recognized over the service period determined as of the grant date under ASC 718, excluding the effect of estimated forfeitures, using the Monte Carlo Approach. In determining the discounted value of the LTIP units, the Company considered the inherent uncertainty that the LTIP units would never reach parity with the other common units of the Operating Partnership and thus have an economic value of zero to the grantee. Additional factors considered in estimating the value of the LTIP units included discounts for illiquidity; expectations for future dividends; risk free interest rates; stock volatility; and economic environment and market conditions.

The grant date fair value of the LTIPs and the assumptions used to estimate the values are as follows:

	Grant Date	**Number of Units Granted**	**Estimated Value per Unit**	**Volatility**	**Dividend Yield**	**Risk Free Interest Rate**
Outperformance Plan	6/1/2015	183,300	$14.13	26%	4.5%	0.95%
2016 Time-Based LTIP Unit Awards	1/28/2016	72,966	$16.69	28%	—%	0.79%
2016 Performance-Based LTIP Unit Awards	1/28/2016	39,285	$11.09	30%	5.8%	1.13%
2017 Time-Based LTIP Unit Awards	3/1/2017	89,574	$18.53	24%	—%	0.92%
2017 Performance-Based LTIP Unit Awards	3/1/2017	134,348	$19.65	25%	5.8%	1.47%
2018 Time-Based LTIP Unit Awards	3/1/2018	97,968	$16.83	26%	—%	2.07%
2018 Performance-Based LTIP Unit Awards	3/1/2018	146,949	$17.02	26%	6.2%	2.37%
2019 Time-Based LTIP Unit Awards	3/1/2019	88,746	$18.45	21%	—%	2.57%
2019 Performance-Based LTIP Unit Awards	3/1/2019	133,107	$18.91	21%	6.2%	2.55%

The Company recorded $4.2 million, $3.6 million and $2.5 million in compensation expense related to the LTIP units for years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019 and 2018, there was $4.9 million and $5.0 million, respectively, of total unrecognized compensation cost related to LTIP units. This cost is expected to be recognized over approximately 1.7 years, which represents the weighted average remaining vesting period of the LTIP units.

Board of Trustee Share Compensation

For 2019, 2018 and 2017, each independent trustee was compensated $0.1 million for their services. Each trustee may elect to receive up to 100% of their compensation in the form of shares, but must receive at least 50% in the form of shares. In January 2019, 2018 and 2017, the Company issued 27,870, 21,670 and 23,980 common shares, respectively, to its independent trustees as compensation for services performed in 2018, 2017 and 2016, respectively. The quantity of shares was calculated based on the average of the closing price for the Company’s common shares on the NYSE for the last ten trading days preceding the reporting date. On January 15, 2020, the Company distributed 24,516 common shares to its independent trustees for services performed in 2019.

13. Leases

The Courtyard Altoona hotel was sold on May 7, 2019. The Courtyard Altoona hotel was subject to a ground lease with an expiration date of April 30, 2029 and we had an extension option by the Company of up to 12 additional terms of five years each. Monthly payments were determined by the quarterly average room occupancy of the hotel. Rent was equal to approximately $8,400 per month when monthly occupancy was less than 85% and could increase up to approximately $20,000 per month if occupancy was 100%, with minimum rent increased by two and one-half percent (2.5%) on an annual basis.

The Residence Inn San Diego Gaslamp hotel is subject to a ground lease with an expiration of January 31, 2065 with an extension option by the Company of up to three additional terms of ten years each. Monthly payments are currently approximately $40,300 per month and increase 10% every 5 years. The hotel is subject to supplemental rent payments annually calculated as 5% of gross revenues during the applicable lease year, minus 12 times the monthly base rent scheduled for the lease year.

The Residence Inn New Rochelle hotel is subject to an air rights lease and garage lease that each expires on December 1, 2104. The lease agreements with the City of New Rochelle cover the space above the parking garage that is occupied by the hotel as well as 128 parking spaces in a parking garage that is attached to the hotel. The annual base rent for the garage lease is the hotel's proportionate share of the city's adopted budget for the operations, management and maintenance of the garage and established reserves to fund the cost of capital repairs. Aggregate rent for 2019 under these leases amounted to approximately $29,000 per quarter.

The Hilton Garden Inn Marina del Rey hotel is subject to a ground lease with an expiration of December 31, 2067. Minimum monthly payments are currently approximately $47,500 per month and a percentage rent payment less the minimum rent is due in arrears equal to 5% to 25% of gross income based on the type of income.

The Company entered into a corporate office lease in September 2015. The lease is for a term of 11 years and includes a 12-month rent abatement period and certain tenant improvement allowances. The Company has a renewal option of up to two successive terms of five years each. The Company shares the space with related parties and is reimbursed for the pro-rata share of rentable space occupied by the related parties.

The Company is the lessee under ground, air rights, garage and office lease agreements for certain of its properties, all of which qualify as operating leases as of December 31, 2019. The leases typically provide multi-year renewal options to extend term as lessee at the Company's option. Option periods are included in the calculation of the lease obligation liability only when options are reasonably certain to be exercised.

In calculating the Company's lease obligations under the various leases, the Company uses discount rates estimated to be equal to what the Company would have to pay to borrow on a collateralized basis over a similar term, for an amount equal to the lease payments, in a similar economic environment.

The following table includes information regarding the Company's leases for which it is the lessee, as of December 31, 2019, for each of the next five calendar years and thereafter (in thousands):

Total Future Lease Payments		
		Amount
2020	$	2,027
2021		2,051
2022		2,071
2023		2,093
2024		2,115
Thereafter		68,906
Total lease payments	$	79,263
Less: Imputed interest		(55,546)
Present value of lease liabilities	$	23,717

The following is a schedule of the minimum future payments required under the ground, air rights, garage leases and office lease as of December 31, 2018, for each of the next five calendar years and thereafter:

		Amount
2019	$	2,065
2020		2,132
2021		2,157
2022		2,182
2023		2,206
Thereafter		71,661
Total lease payments	$	82,403

For the year ended December 31, 2019, the Company incurred $1.2 million of fixed lease payments and $0.6 million of variable lease payments, which are included in property taxes, ground rent and insurance in our consolidated statement of operations.

The following tables include information regarding the right of use assets and lease liabilities of the Company as of December 31, 2019:

	Right of Use Asset		Lease Liability	
Balance as of January 1, 2019	$	23,091	$	25,715
Amortization		(613)		(391)
Disposal		(1,208)		(1,607)
Balance as of December 31, 2019	$	21,270	$	23,717

Lease Term and Discount Rate	December 31, 2019
Weighted-average remaining lease term (years)	40.81
Weighted-average discount rate	6.55%

14. Commitments and Contingencies

Litigation

The nature of the operations of the Company's hotels exposes those hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. IHM is currently a defendant in several class action lawsuits pending in the state of California.

The first class action lawsuit was filed in the Santa Clara County Superior Court on October 21, 2016 under the title Ruffy, et al, v. Island Hospitality Management, LLC, et al. Case No. 16-CV-301473 ("Ruffy") and the second class action lawsuit was filed on March 21, 2018 under the title Doonan, et al, v. Island Hospitality Management, LLC, et al. Case No 18-CV-325187 ("Doonan"). The class actions relate to hotels operated by IHM in the state of California and owned by affiliates of the Company and the NewINK JV, and/or certain third parties. The complaint alleges various wage and hour law violations based on alleged misclassification of certain hotel managerial staff and violation of certain California statutes regarding incorrect information contained on employee paystubs. The plaintiffs seek injunctive relief, money damages, penalties, and interest. A settlement agreement has been negotiated and approved by the applicable courts for Ruffy and Doonan. As of December 31, 2019, included in accounts payable and accrued expenses is $0.1 million which represents an estimate of the Company's total exposure to the Ruffy and Doonan litigations based on standard indemnification obligations under hotel management agreements with IHM.

In addition, IHM is a defendant in the following series of interrelated class action lawsuits: Perez et al. v. Island Hospitality Management III LLC et al. (United States District Court for the Central District of California, Case No. 2:18-cv-04903-DMG-JPR) filed on March 15, 2018, Cruz v. Island Hospitality Management III LLC (Santa Clara County Superior Court Case No. 19CV353655) filed on August 19, 2019, Leon et al. v. Island Hospitality Management III LLC (Orange County Superior Court Case No. 30-2019-01050719-CU-OE-CXC) filed on April 2, 2019, and Vela v. Island Hospitality Management LLC et al. (San Diego County Superior Court, Case No. 37-2019-0003525) filed on July 9, 2019 (collectively the "Perez class actions"). The Perez class actions also relate to hotels operated by IHM in the state of California and owned by affiliates of the Company and the NewINK JV, and/or certain third parties. The complaints allege various wage and hour law violations based on alleged violation of certain California statutes regarding rest and meal breaks and wage statements. The plaintiffs seek injunctive relief, money damages, penalties, and interest. Settlement agreements have been negotiated and currently await approval by the applicable courts. As of December 31, 2019, included in accounts payable and accrued expenses is $0.6 million which represents an estimate of the Company's total exposure to the Perez class actions based on standard indemnification obligations under hotel management agreements with IHM.

Management Agreements

The management agreements with IHM have an initial term of five years and automatically renew for two five-year periods unless IHM provides written notice to us no later than 90 days prior to the then current term's expiration date of their intent not to renew. The IHM management agreements provide for early termination at the Company's option upon sale of any IHM-managed hotel for no termination fee, with six months advance notice. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels. Base management fees are calculated as a percentage of the hotel's gross room revenue. If certain financial thresholds are met or exceeded, an incentive management fee is calculated as 10% of the hotel's net operating income less fixed costs, base management fees and a specified return threshold. The incentive management fee is capped at 1% of gross hotel revenues for the applicable calculation.

As of December 31, 2019, terms of the Company's management agreements are (dollars are not in thousands):

Property	Management Company	Base Management Fee	Monthly Accounting Fee	Monthly Revenue Management Fee	Incentive Management Fee Cap
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Minneapolis-Mall of America	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Nashville-Brentwood	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Dallas-Market Center	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Hartford-Farmington	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton Orlando-Maitland	IHM	3.0 %	1,200	1,000	1.0 %
Hampton Inn & Suites Houston-Medical Center	IHM	3.0 %	1,000	1,000	1.0 %
Residence Inn Long Island Holtsville	IHM	3.0 %	1,000	1,000	1.0 %
Residence Inn White Plains	IHM	3.0 %	1,000	750	1.0 %
Residence Inn New Rochelle	IHM	3.0 %	1,000	750	1.0 %
Residence Inn Garden Grove	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Mission Valley	IHM	3.0 %	1,200	1,000	1.0 %
Homewood Suites by Hilton San Antonio River Walk	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Washington DC	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Tysons Corner	IHM	3.0 %	1,200	1,000	1.0 %
Hampton Inn Portland Downtown	IHM	3.0 %	1,000	550	1.0 %
Courtyard Houston	IHM	3.0 %	1,000	550	1.0 %
Hyatt Place Pittsburgh North Shore	IHM	3.0 %	1,500	1,000	1.0 %
Hampton Inn Exeter	IHM	3.0 %	1,200	1,000	1.0 %
Hilton Garden Inn Denver Tech	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn Bellevue	IHM	3.0 %	1,200	1,000	1.0 %
Springhill Suites Savannah	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Silicon Valley I	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Silicon Valley II	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn San Mateo	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Mountain View	IHM	3.0 %	1,200	1,000	1.0 %
Hyatt Place Cherry Creek	IHM	3.0 %	1,500	1,000	1.0 %
Courtyard Addison	IHM	3.0 %	1,500	1,000	1.0 %
Courtyard West University Houston	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn West University Houston	IHM	3.0 %	1,200	1,000	1.0 %
Hilton Garden Inn Burlington	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn San Diego Gaslamp	IHM	3.0 %	1,500	1,000	1.0 %
Hilton Garden Inn Marina del Rey	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn Dedham	IHM	3.0 %	1,200	1,000	1.0 %
Residence Inn Il Lugano	IHM	3.0 %	1,500	1,000	1.0 %
Hilton Garden Inn Portsmouth	IHM	3.0 %	1,500	1,000	1.0 %
Courtyard Summerville	IHM	3.0 %	1,500	1,000	1.0 %
Embassy Suites Springfield	IHM	3.0 %	1,500	1,000	1.0 %
Residence Inn Summerville	IHM	3.0 %	1,500	1,000	1.0 %
Courtyard Dallas	IHM	3.0 %	1,500	1,000	1.0 %

Management fees totaled approximately $10.8 million, $10.8 million and $9.9 million, respectively, for the years ended December 31, 2019, 2018 and 2017. Incentive management fees paid to IHM for the years ended years ended December 31, 2019, 2018 and 2017 were $0.1 million, $0.1 million and $0.2 million, respectively.

Franchise Agreements

The fees associated with the franchise agreements are calculated as a specified percentage of the hotel's gross room revenue. Terms of the Company's franchise agreements are as of December 31, 2019:

Property	Franchise/ Royalty Fee	Marketing/ Program Fee	Expiration
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	4.0 %	4.0 %	2025
Homewood Suites by Hilton Minneapolis-Mall of America	4.0 %	4.0 %	2025
Homewood Suites by Hilton Nashville-Brentwood	4.0 %	4.0 %	2025
Homewood Suites by Hilton Dallas-Market Center	4.0 %	4.0 %	2025
Homewood Suites by Hilton Hartford-Farmington	4.0 %	4.0 %	2025
Homewood Suites by Hilton Orlando-Maitland	4.0 %	4.0 %	2025
Hampton Inn & Suites Houston-Medical Center	5.0 %	4.0 %	2035
Courtyard Altoona	5.5 %	2.0 %	2030
Springhill Suites Washington	5.0 %	2.5 %	2030
Residence Inn Long Island Holtsville	5.5 %	2.5 %	2025
Residence Inn White Plains	5.5 %	2.5 %	2030
Residence Inn New Rochelle	5.5 %	2.5 %	2030
Residence Inn Garden Grove	5.0 %	2.5 %	2031
Residence Inn Mission Valley	5.0 %	2.5 %	2031
Homewood Suites by Hilton San Antonio River Walk	4.0 %	4.0 %	2026
Residence Inn Washington DC	5.5 %	2.5 %	2033
Residence Inn Tysons Corner	5.0 %	2.5 %	2031
Hampton Inn Portland Downtown	6.0 %	4.0 %	2032
Courtyard Houston	5.5 %	2.0 %	2030
Hyatt Place Pittsburgh North Shore	5.0 %	3.5 %	2030
Hampton Inn Exeter	6.0 %	4.0 %	2031
Hilton Garden Inn Denver Tech	5.5 %	4.3 %	2028
Residence Inn Bellevue	5.5 %	2.5 %	2033
Springhill Suites Savannah	5.0 %	2.5 %	2033
Residence Inn Silicon Valley I	5.5 %	2.5 %	2029
Residence Inn Silicon Valley II	5.5 %	2.5 %	2029
Residence Inn San Mateo	5.5 %	2.5 %	2029
Residence Inn Mountain View	5.5 %	2.5 %	2029
Hyatt Place Cherry Creek	3% to 5%	3.5 %	2034
Courtyard Addison	5.5 %	2.0 %	2029
Courtyard West University Houston	5.5 %	2.0 %	2029
Residence Inn West University Houston	6.0 %	2.5 %	2024
Hilton Garden Inn Burlington	5.5 %	4.3 %	2029
Residence Inn San Diego Gaslamp	6.0 %	2.5 %	2035
Hilton Garden Inn Marina del Rey	3% to 5.5%	4.3 %	2030
Residence Inn Dedham	6.0 %	2.5 %	2030
Residence Inn Il Lugano	3% to 6%	2.5 %	2045
Hilton Garden Inn Portsmouth	5.5 %	4.0 %	2037
Courtyard Summerville	6.0 %	2.5 %	2037
Embassy Suites Springfield	5.5 %	4.0 %	2037
Residence Inn Summerville	6.0 %	2.5 %	2038
Courtyard Dallas	4% to 6%	2.0 %	2038

Franchise and marketing/program fees totaled approximately $25.9 million, $24.9 million and $23.2 million, respectively, for the years ended December 31, 2019, 2018 and 2017.

15. Related Party Transactions

Prior to March 1, 2019, Mr. Fisher owned 51% of IHM. On March 1, 2019, Mr. Fisher acquired the 1.5% ownership interest of an employee who was leaving IHM. As of December 31, 2019, Mr. Fisher owns 52.5% of IHM. As of December 31, 2019, the Company had hotel management agreements with IHM to manage 40 of its wholly owned hotels. As of December 31, 2019, all 46 hotels owned by the NewINK JV and 34 of the 48 hotels owned by the Inland JV were managed by IHM. Hotel management, revenue management and accounting fees accrued or paid to IHM for the hotels owned by the Company for the years ended December 31, 2019, 2018 and 2017 were $10.8 million, $10.8 million and $9.2 million, respectively. At December 31, 2019 and 2018, the amounts due to IHM were $0.7 million and $1.1 million, respectively. Incentive management fees paid to IHM by the Company for the years ended December 31, 2019, 2018 and 2017 were $0.1 million, $0.1 million and $0.2 million, respectively. The Company provides services to Castleblack, which is 97.5% owned by affiliates of CLNY and 2.5% owned by Mr. Fisher. For the years ended December 31, 2019 and 2018 the company provided services of $0.1 million and $0.4 million, respectively.

Cost reimbursements from unconsolidated real estate entities revenue represents reimbursements of costs incurred on behalf of the NewINK and Inland JVs and Castleblack. These costs relate primarily to corporate payroll costs at the NewINK and Inland JVs and Castleblack where the Company is the employer and shared office expenses. As the Company records cost reimbursements based upon costs incurred with no added markup, the revenue and related expense has no impact on the Company's operating income or net income. Cost reimbursements from the JVs are recorded based upon the occurrence of a reimbursed activity.

Various shared office expenses and rent are paid by the Company and allocated to the NewINK JV, the Inland JV, Castleblack and IHM based on the amount of square footage occupied by each entity. Insurance expenses for medical, workers compensation and general liability are paid by the NewINK JV and allocated back to the hotel properties or applicable entity for the years ended December 31, 2019, 2018 and 2017 were $7.4 million, $7.5 million and $6.8 million, respectively.

16. Quarterly Operating Results (unaudited)

	Quarter Ended - 2019			
	March 31	June 30	September 30	December 31
	(in thousands, except share and per share data)			
Total revenue	$ 75,679	$ 87,874	$ 90,080	$ 74,695
Total operating expenses	65,786	71,741	70,182	67,234
Operating income	9,893	16,133	19,898	7,461
Net income attributable to common shareholders	1,613	9,437	10,002	(2,349)
Income (loss) per common share, basic (1)	0.03	0.20	0.21	(0.05)
Income (loss) per common share, diluted (1)	0.03	0.20	0.21	(0.05)
Weighted average number of common shares outstanding:				
Basic	46,556,710	46,760,016	46,913,922	46,919,035
Diluted	46,734,958	46,976,999	47,152,166	47,220,671

	Quarter Ended - 2018			
	March 31	June 30	September 30	December 31
	(in thousands, except share and per share data)			
Total revenue	$ 72,915	$ 85,374	$ 88,897	$ 77,044
Total operating expenses	62,630	66,237	68,522	68,707
Operating income	10,285	19,137	20,375	8,337
Net income attributable to common shareholders	2,848	13,387	14,580	(174)
Income per common share, basic (1)	0.06	0.29	0.31	—
Income per common share, diluted (1)	0.06	0.29	0.31	—
Weighted average number of common shares outstanding:				
Basic	45,753,792	45,867,625	46,149,765	46,513,688
Diluted	46,022,690	46,084,688	46,384,969	46,765,797

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

CHATHAM LODGING TRUST
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2019
(in thousands)

			Initial Cost				Gross Amount at End of Year						
Description	Year of Acquisition	Encumbrances	Land	Buildings & Improvements	Cost Cap. Sub. To Acq. Land	Cost Cap. Sub. To Acq. Bldg & Improvements	Land	Buildings & Improvements	Total	Bldg & Improvements	Accumulated Depreciation	Year of Original Construction	Depreciation Life
Homewood Suites Orlando - Maitland, FL	2010	—	$ 1,800	$ 7,200	$ 34	$ 5,174	$ 1,834	$ 12,374	$ 14,208	$ 12,374	$ 3,530	2000	(1)
Homewood Suites Boston - Billerica, MA	2010	15,693	1,470	10,555	48	3,839	1,518	14,394	15,912	14,394	3,436	1999	(1)
Homewood Suites Minneapolis - Mall of America, Bloomington, MN	2010	—	3,500	13,960	19	4,081	3,519	18,041	21,560	18,041	4,707	1998	(1)
Homewood Suites Nashville - Brentwood, TN	2010	—	1,525	9,300	12	3,641	1,537	12,941	14,478	12,941	3,392	1998	(1)
Homewood Suites Dallas - Market Center, Dallas, TX	2010	—	2,500	7,583	30	3,751	2,530	11,334	13,864	11,334	2,849	1998	(1)
Homewood Suites Hartford - Farmington, CT	2010	—	1,325	9,375	92	3,549	1,417	12,924	14,341	12,924	3,050	1999	(1)
Hampton Inn & Suites Houston - Houston, TX	2010	17,717	3,200	12,709	56	2,945	3,256	15,654	18,910	15,654	3,636	1997	(1)
Residence Inn Holtsville - Holtsville, NY	2010	—	2,200	18,765	—	1,201	2,200	19,966	22,166	19,966	5,000	2004	(1)
Residence Inn White Plains - White Plains, NY	2010	—	2,200	17,677	—	8,576	2,200	26,253	28,453	26,253	6,638	1982	(1)
Residence Inn New Rochelle - New Rochelle, NY	2010	12,936	—	20,281	9	3,208	9	23,489	23,498	23,489	6,015	2000	(1)
Residence Inn Garden Grove - Garden Grove, CA	2011	32,053	7,109	35,484	50	1,980	7,159	37,464	44,623	37,464	8,439	2003	(1)
Residence Inn Mission Valley - San Diego, CA	2011	27,272	9,856	39,535	—	2,730	9,856	42,265	52,121	42,265	8,868	2003	(1)
Homewood Suites San Antonio - San Antonio, TX	2011	15,563	5,999	24,764	7	5,440	6,006	30,204	36,210	30,204	6,915	1996	(1)
Residence Inn Washington DC - Washington, DC	2011	—	6,083	22,063	28	6,082	6,111	28,145	34,256	28,145	6,907	1974	(1)
Residence Inn Tyson's Corner - Vienna, VA	2011	21,291	5,752	28,917	—	2,538	5,752	31,455	37,207	31,455	6,353	2001	(1)
Hampton Inn Portland Downtown - Portland, ME	2012	—	4,315	22,664	—	290	4,315	22,954	27,269	22,954	4,047	2011	(1)
Courtyard Houston - Houston, TX	2013	17,559	5,600	27,350	—	2,781	5,600	30,131	35,731	30,131	5,156	2010	(1)
Hyatt Place Pittsburgh - Pittsburgh, PA	2013	21,520	3,000	35,576	—	1,291	3,000	36,867	39,867	36,867	6,035	2011	(1)
Hampton Inn & Suites Exeter - Exeter, NH	2013	—	1,900	12,350	4	132	1,904	12,482	14,386	12,482	2,017	2010	(1)
Hilton Garden Inn Denver Tech - Denver, CO	2013	—	4,100	23,100	5	655	4,105	23,755	27,860	23,755	3,917	1999	(1)
Residence Inn Bellevue - Bellevue, WA	2013	43,857	13,800	56,957	—	2,277	13,800	59,234	73,034	59,234	9,435	2008	(1)
SpringHill Suites Savannah - Savannah, GA	2013	29,817	2,400	36,050	1	1,534	2,401	37,584	39,985	37,584	5,980	2009	(1)
Residence Inn Silicon Valley I - Sunnyvale, CA	2014	64,406	42,652	45,846	—	5,559	42,652	51,405	94,057	51,405	17,441	1983	(1)
Residence Inn Silicon Valley II - Sunnyvale, CA	2014	70,270	46,474	50,380	—	1,360	46,474	51,740	98,214	51,740	19,050	1985	(1)
Residence Inn San Mateo - San Mateo, CA	2014	48,305	38,420	31,352	—	752	38,420	32,104	70,524	32,104	11,800	1985	(1)
Residence Inn Mt. View - Mountain View, CA	2014	37,670	22,019	31,813	—	10,166	22,019	41,979	63,998	41,979	13,722	1985	(1)
Hyatt Place Cherry Creek - Cherry Creek, CO	2014	—	3,700	26,300	—	1,822	3,700	28,122	31,822	28,122	3,855	1987	(1)
Courtyard Addison - Dallas, TX	2014	—	2,413	21,554	—	2,502	2,413	24,056	26,469	24,056	3,311	2000	(1)

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			Initial Cost				Gross Amount at End of Year						
Description	Year of Acquisition	Encumbrances	Land	Buildings & Improvements	Cost Cap. Sub. To Acq. Land	Cost Cap. Sub. To Acq. Bldg & Improvements	Land	Buildings & Improvements	Total	Bldg & Improvements	Accumulated Depreciation	Year of Original Construction	Depreciation Life
Courtyard West University - Houston, TX	2014	—	2,012	17,916	—	504	2,012	18,420	20,432	18,420	2,432	2004	(1)
Residence Inn West University - Houston, TX	2014	—	3,640	25,631	—	1,512	3,640	27,143	30,783	27,143	3,728	2004	(1)
Hilton Garden Inn Burlington - Burlington, MA	2014	—	4,918	27,193	—	1,512	4,918	28,705	33,623	28,705	4,024	1975	(1)
Residence Inn Gaslamp - San Diego, CA	2015	—	—	89,040	—	1,848	—	90,888	90,888	90,888	11,180	2009	(1)
Hilton Garden Inn Marina del Rey, CA	2015	20,931	—	43,210	—	645	—	43,855	43,855	43,855	4,790	2013	(1)
Residence Inn Dedham, MA	2015	—	4,230	17,304	—	1,795	4,230	19,099	23,329	19,099	2,031	1998	(1)
Residence Inn Ft. Lauderdale, FL	2015	—	9,200	24,048	—	1,062	9,200	25,110	34,310	25,110	2,781	2008	(1)
Warner Center	2017	—	6,500	—	99	—	6,599	—	6,599	—	—		
Hilton Garden Inn Portsmouth, NH	2017	—	3,600	37,630	—	289	3,600	37,919	41,519	37,919	2,166	2006	(1)
Courtyard Summerville, SC	2017	—	2,500	16,923	6	134	2,506	17,057	19,563	17,057	908	2014	(1)
Embassy Suites Springfield, VA	2017	—	7,700	58,807	—	305	7,700	59,112	66,812	59,112	3,059	2013	(1)
Residence Inn Summerville, SC	2018	—	2,300	17,060	—	198	2,300	17,258	19,558	17,258	590	2018	(1)
Courtyard Dallas Downtown, TX	2018	—	2,900	42,760	—	64	2,900	42,824	45,724	42,824	1,149	2018	(1)
Sili III	2018	—	8,171	—	—	—	8,171	—	8,171	—	—		
Grand Total(s)			$ 302,983	$ 1,116,982	$ 500	$ 99,724	$303,483	$ 1,216,706	$1,520,189	$ 1,216,706	$ 224,339		

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

	Years
Building	40
Land improvements	20
Building improvements	5-20

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Notes:

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

	2019	2018	2017	2016	2015	2014
Balance at the beginning of the year	$1,510,864	$ 1,431,374	$ 1,320,273	$ 1,306,192	$ 1,105,504	654,560
Acquisitions	8,171	65,020	133,660	—	187,032	444,233
Dispositions during the year	(17,889)	—	(33,053)	—	—	—
Capital expenditures and transfers from construction-in-progress	19,043	14,470	10,494	14,081	13,656	6,711
Investment in Real Estate	$1,520,189	$ 1,510,864	$ 1,431,374	$ 1,320,273	$ 1,306,192	$1,105,504

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

Balance at the beginning of the year	$ 187,780	$ 148,071	$ 116,866	$ 83,245	$ 50,910	28,980
Depreciation and amortization	41,908	39,709	36,401	33,621	32,335	21,930
Dispositions during the year	$ (5,349)	$ —	$ (5,196)	$ —	$ —	$ —
Balance at the end of the year	$ 224,339	$ 187,780	$ 148,071	$ 116,866	$ 83,245	$ 50,910

(c) The aggregate cost of properties for federal income tax purposes (in thousands) is approximately $1,520.332 as of December 31, 2019.

Corporate Information

MANAGEMENT

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

Dennis Craven
Executive Vice President
and Chief Operating Officer

Eric Kentoff
Senior Vice President,
General Counsel
and Secretary

Jeremy Wegner
Senior Vice President
and Chief Financial Officer

INDEPENDENT REGISTERED CPA

PricewaterhouseCoopers LLP
401 East Las Olas Boulevard
Fort Lauderdale, FL 33301

BOARD OF TRUSTEES

Bill Brewer
Private Investor

Thomas J. Crocker
Chief Executive Officer
Crocker Partners, LLC

Jack P. DeBoer
Chairman
Consolidated Holdings, Inc.

Mary Beth Higgins
Chief Executive Officer
Affinity Gaming Inc.

Robert Perlmutter
Private Investor

Rolf E. Ruhfus
Chairman
and Chief Executive Officer
LodgeWorks Corporation

SHAREHOLDER INFORMATION

Investor Relations
Chatham Lodging Trust
222 Lakeview Avenue
Suite 200
West Palm Beach, FL 33401
Tel: 561.802.4477
Fax: 561.835.4125

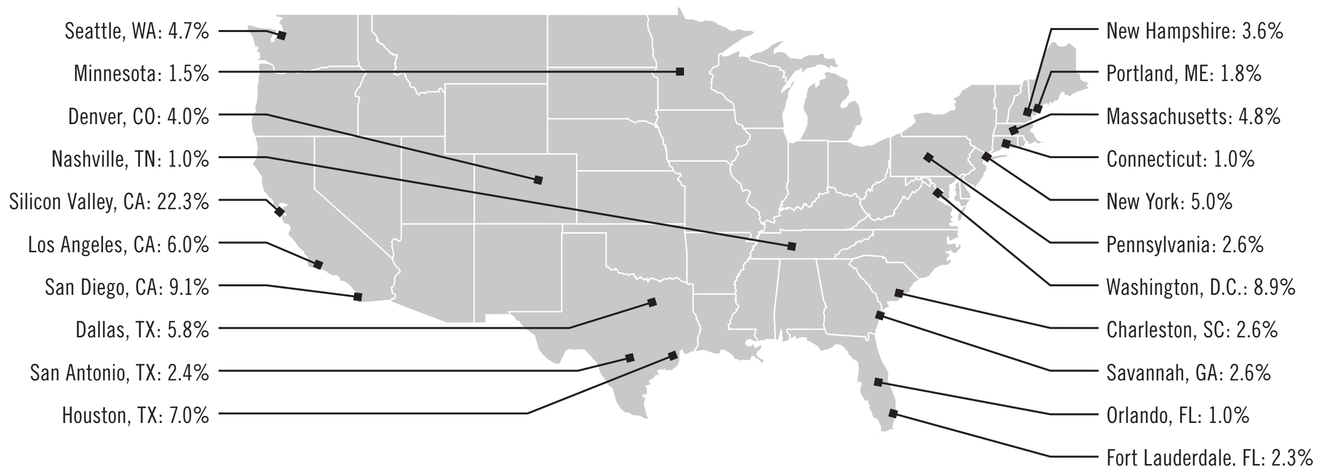
ANNUAL MEETING

The annual meeting will be held on Wednesday, May 13, 2020 at 9:00 a.m. in the Palms Meeting Room. Address above.

TRANSFER AGENT

EQ Shareowner Services
PO Box 64945
St. Paul, MN 55164-0945

Locations



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by Hilton

Hampton
Inn

HOMEWOOD
SUITES
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PLACE

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Garden Inn

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Residence INN
BY MARRIOTT

SPRINGHILL
SUITES
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CHATHAM
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