

Chatham Lodging Trust  
Form 10-Q  
August 02, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
<sup>x</sup> 1934

For the quarterly period ended June 30, 2017

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 (I.R.S. Employer  
Incorporation or Organization) 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)

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.

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

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

Class	Outstanding at August 2, 2017
Common Shares of Beneficial Interest (\$0.01 par value per share)	39,236,397

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CHATHAM LODGING TRUST

## Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30, 2017 (unaudited)	December 31, 2016
Assets:		
Investment in hotel properties, net	\$1,215,677	\$ 1,233,094
Cash and cash equivalents	12,794	12,118
Restricted cash	25,025	25,083
Investment in unconsolidated real estate entities	25,345	20,424
Hotel receivables (net of allowance for doubtful accounts of \$234 and \$155, respectively)	7,277	4,389
Deferred costs, net	4,263	4,642
Prepaid expenses and other assets	5,103	2,778
Deferred tax asset, net	—	426
Total assets	\$1,295,484	\$ 1,302,954
Liabilities and Equity:		
Mortgage debt, net	\$528,077	\$ 530,323
Revolving credit facility	45,000	52,500
Accounts payable and accrued expenses	27,823	27,782
Distributions and losses in excess of investments of unconsolidated real estate entities	5,780	6,017
Distributions payable	5,035	4,742
Total liabilities	611,715	621,364
Commitments and contingencies (Note 12)		
Equity:		
Shareholders' Equity:		
Preferred shares, \$0.01 par value, 100,000,000 shares authorized and unissued at June 30, 2017 and December 31, 2016	—	—
Common shares, \$0.01 par value, 500,000,000 shares authorized; 39,225,717 and 38,367,014 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	388	380
Additional paid-in capital	739,476	722,019
Retained earnings (distributions in excess of retained earnings)	(61,474)	(45,657)
Total shareholders' equity	678,390	676,742
Noncontrolling Interests:		
Noncontrolling interest in Operating Partnership	5,379	4,848
Total equity	683,769	681,590
Total liabilities and equity	\$1,295,484	\$ 1,302,954

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

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## CHATHAM LODGING TRUST

## Consolidated Statements of Operations

(In thousands, except share and per share data)

(unaudited)

	For the three months ended		For the six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Revenue:				
Room	\$ 72,801	\$ 72,768	\$ 137,194	\$ 136,702
Food and beverage	1,473	1,726	2,975	3,234
Other	2,967	2,637	5,413	4,990
Cost reimbursements from unconsolidated real estate entities	668	870	1,549	1,924
Total revenue	77,909	78,001	147,131	146,850
Expenses:				
Hotel operating expenses:				
Room	15,024	14,574	28,529	28,385
Food and beverage	1,212	1,245	2,464	2,423
Telephone	387	430	795	851
Other hotel operating	710	638	1,310	1,227
General and administrative	5,974	5,700	11,628	11,196
Franchise and marketing fees	6,089	5,948	11,391	11,136
Advertising and promotions	1,270	1,344	2,602	2,696
Utilities	2,352	2,235	4,722	4,617
Repairs and maintenance	3,179	3,158	6,431	6,359
Management fees	2,588	2,384	4,835	4,613
Insurance	295	338	628	675
Total hotel operating expenses	39,080	37,994	75,335	74,178
Depreciation and amortization	11,714	12,281	23,718	24,756
Impairment loss	6,663	—	6,663	—
Property taxes, ground rent and insurance	5,573	5,014	10,361	10,037
General and administrative	3,287	2,972	6,555	6,084
Hotel property acquisition costs and other charges	15	298	15	310
Reimbursed costs from unconsolidated real estate entities	668	870	1,549	1,924
Total operating expenses	67,000	59,429	124,196	117,289
Operating income	10,909	18,572	22,935	29,561
Interest and other income	6	15	18	36
Interest expense, including amortization of deferred fees	(6,773)	(7,092)	(13,765)	(14,129)
Loss on early extinguishment of debt	—	—	—	(4)
Income from unconsolidated real estate entities	927	942	842	295
Loss on sale from unconsolidated real estate entities	—	(8)	—	(8)
Income before income tax expense	5,069	12,429	10,030	15,751
Income tax expense	—	(179)	(317)	(179)
Net income	5,069	12,250	9,713	15,572
Net income attributable to noncontrolling interests	(35)	(82)	(66)	(104)
Net income attributable to common shareholders	\$ 5,034	\$ 12,168	\$ 9,647	\$ 15,468
Income per Common Share - Basic:				
Net income attributable to common shareholders (Note 10)	\$ 0.13	\$ 0.32	\$ 0.25	\$ 0.40

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Income per Common Share - Diluted:

Net income attributable to common shareholders (Note 10)	\$ 0.13	\$ 0.31	\$0.25	\$0.40
Weighted average number of common shares outstanding:				
Basic	38,525,306	38,299,132	38,443,663	38,286,790
Diluted	38,749,661	38,477,212	38,659,189	38,446,918
Distributions declared per common share:	\$ 0.33	\$ 0.33	\$0.66	\$0.64

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

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## CHATHAM LODGING TRUST

## Consolidated Statements of Equity

(In thousands, except share and per share data)

(unaudited)

	Common Shares			Retained earnings (distributions in excess of retained earnings)	Total Shareholders Equity	Noncontrolling Interest in Operating Partnership	Total Equity
	Shares	Amount	Additional Paid - In Capital				
Balance, January 1, 2016	38,308,937	\$ 379	\$ 719,773	\$(27,281 )	\$ 692,871	\$ 4,131	\$ 697,002
Issuance of shares pursuant to Equity Incentive Plan	34,339	—	550	—	550	—	550
Issuance of shares, net of offering costs of \$1	9,278	1	191	—	192	—	192
Amortization of share based compensation	—	—	646	—	646	598	1,244
Dividends declared on common shares (\$0.64 per share)	—	—	—	(24,586 )	(24,586 )	—	(24,586 )
Distributions declared on LTIP units (\$0.64 per unit)	—	—	—	—	—	(354 )	(354 )
Reallocation of noncontrolling interest	—	—	11	—	11	(11 )	—
Net income	—	—	—	15,468	15,468	104	15,572
Balance, June 30, 2016	38,352,554	\$ 380	\$ 721,171	\$(36,399 )	\$ 685,152	\$ 4,468	\$ 689,620
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 \$512	829,723	8	16,351	—	16,359	—	16,359
Issuance of restricted time-based shares	5,000	—	—	—	—	—	—
Amortization of share based compensation	—	—	421	—	421	1,115	1,536
Dividends declared on common shares (\$0.66 per share)	—	—	—	(25,464 )	(25,464 )	—	(25,464 )
Distributions declared on LTIP units (\$0.66 per unit)	—	—	—	—	—	(465 )	(465 )
Reallocation of noncontrolling interest	—	—	185	—	185	(185 )	—
Net income	—	—	—	9,647	9,647	66	9,713
Balance, June 30, 2017	39,225,717	\$ 388	\$ 739,476	\$(61,474 )	\$ 678,390	\$ 5,379	\$ 683,769

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

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

	For the six months ended	
	June 30,	2016
	2017	
Cash flows from operating activities:		
Net income	\$ 9,713	\$ 15,572
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23,611	24,649
Amortization of deferred franchise fees	107	107
Amortization of deferred financing fees included in interest expense	141	548
Impairment loss	6,663	—
Loss on early extinguishment of debt	—	4
Share based compensation	1,786	1,495
Income from unconsolidated real estate entities	(842 )	(295 )
Changes in assets and liabilities:		
Hotel receivables	(2,887 )	(1,850 )
Deferred tax asset	426	—
Deferred costs	(44 )	(94 )
Prepaid expenses and other assets	(2,349 )	(426 )
Accounts payable and accrued expenses	321	(98 )
Net cash provided by operating activities	36,646	39,612
Cash flows from investing activities:		
Improvements and additions to hotel properties	(12,865 )	(11,774 )
Distributions from unconsolidated entities	719	4,069
Investment in unconsolidated real estate entities	(5,037 )	—
Restricted cash	58	(3,235 )
Net cash used in investing activities	(17,125 )	(10,940 )
Cash flows from financing activities:		



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Borrowings on revolving credit facility	24,000		24,450	
Repayments on revolving credit facility	(31,500)	)	(23,750)	)
Payments on mortgage debt	(2,070)	)	(1,784)	)
Principal prepayment of mortgage debt	—		(5,954)	)
Payment of financing costs	—		(50)	)
Payment of offering costs	(512)	)	(1)	)
Proceeds from issuance of common shares	16,871		192	
Distributions-common shares/units	(25,634)	)	(27,503)	)
Net cash used in financing activities	(18,845)	)	(34,400)	)
Net change in cash and cash equivalents	676		(5,728)	)
Cash and cash equivalents, beginning of period	12,118		21,036	
Cash and cash equivalents, end of period	\$ 12,794		\$ 15,308	
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 13,297		\$ 13,486	
Cash paid for income taxes	\$ 294		\$ 485	

-continued-

Supplemental disclosure of non-cash investing and financing information:

On January 15, 2017, the Company issued 23,980 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2016. On January 15, 2016, the Company issued 26,488 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2015.

As of June 30, 2017, the Company had accrued distributions payable of \$5,035. These distributions were paid on July 28, 2017, except for \$669 related to accrued but unpaid distributions on unvested performance based shares and LTIP units (See Note 11). As of June 30, 2016, the Company had accrued distributions payable of \$4,658. These distributions were paid on July 29, 2016, except for \$400 related to accrued but unpaid distributions on unvested performance based shares.

Accrued share based compensation of \$250 and \$250 is included in accounts payable and accrued expenses as of June 30, 2017 and 2016, respectively.

Accrued capital improvements of \$1,921 and \$2,918 are included in accounts payable and accrued expenses as of June 30, 2017 and 2016, respectively.

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

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CHATHAM LODGING TRUST

Notes to the Consolidated Financial Statements

(in thousands, except share and per share data, unless otherwise specified)

(unaudited)

1. Organization

Chatham Lodging Trust (“we,” “us” or the “Company”) was formed as a Maryland real estate investment trust (“REIT”) on October 26, 2009. The Company is internally-managed and invests primarily in upscale extended-stay and premium-branded select-service hotels.

In January 2014, the Company established an At the Market Equity Offering (“ATM Plan”) whereby, from time to time, we may publicly offer and sell 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, with Cantor Fitzgerald & Co. (“Cantor”) acting as sales agent pursuant to a Sales Agreement (the “Cantor Sales Agreement”). On January 13, 2015, the Company entered into a Sales Agreement (the “Barclays Sales Agreement”) with Barclays Capital Inc. (“Barclays”) to add Barclays as an additional sales agent under the Company’s ATM Plan. During the three months ended June 30, 2017, we issued 647,925 shares under the ATM Plan at a weighted average price of \$20.43, which generated \$12.9 million of net proceeds. As of June 30, 2017, we had issued 1,528,745 shares under the ATM Plan at a weighted average price of \$22.22. As of June 30, 2017, there was approximately \$16.0 million available for issuance under the ATM Plan.

In January 2014, the Company established a \$25 million dividend reinvestment and stock purchase plan (“DRSPP”). Under the DRSPP, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company’s common shares. Shareholders may also make optional cash purchases of the Company’s common shares subject to certain limitations detailed in the prospectus for the DRSPP. In January 2017, we filed a new \$25 million registration statement for the DRSPP to replace the prior existing program. During the three months ended June 30, 2017, we issued 175,133 shares under the DRSPP at a weighted average price of \$20.12, which generated \$3.5 million of net proceeds. As of June 30, 2017, we had issued 211,131 shares under the DRSPP at a weighted average price of \$20.27. As of June 30, 2017, there was approximately \$20.7 million available for issuance under the DRSPP.

The net proceeds from any share offerings or issuances are contributed to Chatham Lodging, L.P., our operating partnership (the “Operating Partnership”), in exchange for partnership interests. Substantially all of the Company’s assets are held by, and all operations are conducted through, the Operating Partnership. Chatham Lodging Trust is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership. Certain of the Company’s executive officers hold vested and unvested long-term incentive plan units in the Operating Partnership (“LTIP units”), which are presented as non-controlling interests on our consolidated balance sheets.

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.

As of June 30, 2017, the Company wholly owned 38 hotels with an aggregate of 5,712 rooms located in 15 states and the District of Columbia. As of June 30, 2017, the Company also (i) held a 10.3% noncontrolling interest in a joint

venture (the "NewINK JV") with affiliates of Colony NorthStar, Inc. ("CLNS"), which was formed in the second quarter of 2014 and acquired 47 hotels comprising an aggregate of 6,097 rooms from a joint venture (the "Innkeepers JV") between the Company and Cerberus Capital Management ("Cerberus") and (ii) held a 10.0% noncontrolling interest in a separate joint venture (the "Inland JV") with affiliates of CLNS, which was formed in the fourth quarter of 2014 and acquired 48 hotels from Inland American Real Estate Trust, Inc. ("Inland"), comprising an aggregate of 6,401 rooms. We sometimes refer to the NewINK JV and Inland JV collectively as the ("JVs").

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To qualify as a REIT, the Company cannot operate the 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 all of the 47 NewINK JV hotels and (ii) owns its 10% interest in all of 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 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 June 30, 2017, Island Hospitality Management LLC ("IHM"), which is 51% owned by Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, managed all 38 of the Company's wholly owned hotels. As of June 30, 2017, all of the NewINK JV hotels were managed by IHM. As of June 30, 2017, 34 of the Inland JV hotels were managed by IHM and 14 of the Inland JV hotels were managed by Marriott International, Inc. ("Marriott").

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying unaudited interim 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") applicable to interim financial information. These unaudited 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. Interim results are not necessarily indicative of full year performance due to seasonal and other factors, including the timing of the acquisition of hotels.

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. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited financial statements prepared in accordance with GAAP, and the related notes thereto as of December 31, 2016, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

### 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.

## 3. Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In July 2015, the FASB voted to defer the effective date to January 1, 2018 with early adoption beginning January 1, 2017. We are evaluating the effect that ASU 2014-09 will

have on our consolidated financial statements and related disclosures. The Company is finalizing its evaluation of each of its revenue streams under the new model and because of the short-term, day-to-day nature of the Company's hotel revenues, the pattern of revenue recognition is not expected to change significantly. The Company does not expect adoption of this standard will have a material impact on its consolidated financial statements.

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On February 25, 2016, the FASB issued ASU 2016-02 ("ASU 2016-02"), Leases, which relates to the accounting for leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases today. The Company is the lessee on certain air/land rights arrangements and an office lease and expects to record right of use assets and lease liabilities for these leases under the new standard. This guidance is effective for the Company on January 1, 2019, however, early adoption is permitted. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

On August 26, 2016, the FASB issued ASU 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. This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with earlier adoption permitted. The Company has certain cash payments and receipts related to debt extinguishment and distributions from equity method investments that will be affected by the new standard. The Company does not anticipate that this guidance will have a material impact the adoption of ASU 2016-15 to our consolidated financial statements.

On November 17, 2016, the FASB issued 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 will be effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and all other entities for fiscal years beginning after December 15, 2018. The Company does not anticipate that this guidance will have a material impact on our consolidated financial statements.

On January 5, 2017, the FASB issued ASU 2017-01 ("ASU 2017-01"), Definition of a Business, which will likely result in more acquisitions being accounted for as asset acquisitions across all industries, particularly real estate, pharmaceutical and oil and gas. Application of the changes would also affect the accounting for disposal transactions. This standard will be effective for public business entities with a calendar year end in 2018 and all other entities have an additional year to adopt. The Company does not anticipate that this guidance will have a material impact on our consolidated financial statements.

#### 4. Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts at a level believed to be adequate to absorb estimated probable losses. That estimate is based on past loss experience, current economic and market conditions and other relevant factors. The allowance for doubtful accounts was \$0.2 million and \$0.2 million as of June 30, 2017 and December 31, 2016, respectively.

#### 5. Investment in Hotel Properties

Investment in hotel properties as of June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Land and improvements	\$274,554	\$274,554
Building and improvements	1,045,697	1,045,880
Furniture, fixtures and equipment	53,603	50,495

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Renovations in progress	13,309	10,067
	1,387,163	1,380,996
Less: accumulated depreciation	(171,486 )	(147,902 )
Investment in hotel properties, net	\$1,215,677	\$1,233,094

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During the three and six months ended June 30, 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 flow attributable to the hotel over its remaining anticipated holding period and to its disposition. The Company determined that the estimated undiscounted future cash flow attributable to the hotels did not exceed their carrying value and impairment existed. As a result, the Company recorded a \$6.7 million impairment charge in the consolidated statements of operations during the three and six months ended June 30, 2017. Fair value was determined based on a discounted cash flow model using third-party market data, considered Level 3 inputs. We may record additional impairment charges if operating results of this hotel are materially different from our forecasts, the economy and lodging industry weakens, or we shorten our contemplated holding period for additional hotels.

## 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, CLNS, which owns a 89.7% interest in the NewINK JV. As of June 30, 2017 and 2016, the Company's share of partners' capital in the NewINK JV was approximately \$53.3 million and \$12.9 million, respectively, and the total difference between the carrying amount of investment and the Company's share of partners' capital was approximately \$59.1 million and \$16.6 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 value of NewINK JV assets and liabilities were adjusted to reflect estimated fair market value at the time Colony merged with NorthStar.

During the three and six months ended June 30, 2017 and 2016, the Company received cash distributions from the NewINK JV as follows (in thousands):

	For the three months ended June 30, 2017		For the six months ended June 30, 2016	
Cash generated from other activities and excess cash	\$719	\$1,747	\$719	\$2,569
Total	\$719	\$1,747	\$719	\$2,569

On November 17, 2014, the Company acquired a 10.0% interest in the 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, CLNS, which owns a 90.0% interest in the Inland JV. As of June 30, 2017 and 2016, the Company's share of partners' capital in the Inland JV was approximately \$36.6 million and \$23.1 million, respectively, and the total difference between the carrying amount of the investment and the Company's share of partners' capital is approximately \$11.3 million and \$0.0 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 value of Inland JV assets and liabilities were adjusted to reflect estimated fair market value at the time Colony merged with NorthStar. The Company serves as managing member of the Inland JV. During the three and six months ended June 30, 2017 and 2016, the Company received no cash distributions from the Inland JV.

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. The new non-recourse loan is with Morgan Stanley Bank, N.A. The new loan bears interest at a rate of LIBOR plus a spread of 2.79%, has an initial maturity of June 7, 2019 and three one-year extension options.



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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.

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The Company's ownership interests in the JVs are subject to change in the event that either the Company or CLNS 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 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 loans) or 20% of the debt outstanding at the time in question (in the case of the Inland loans). In connection with each of the NewINK and Inland 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. CLNS 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 investment in the NewINK JV and the Inland JV were \$(5.8) million and \$25.3 million, respectively, at June 30, 2017 and \$(6.0) million and \$20.4 million, respectively, at December 31, 2016. The following table sets forth the combined components of net income (loss), including the Company's share, related to the NewINK JV and Inland JV for the three months ended June 30, 2017 and 2016 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 130,192	\$ 130,813	\$ 238,766	\$ 239,260
Total hotel operating expenses	81,747	74,604	156,704	142,452
Operating income	\$ 48,445	\$ 56,209	\$ 82,062	\$ 96,808
Net income (loss) from continuing operations	\$ 8,075	\$ 7,769	\$ 562	\$ (121 )
Net income (loss)	\$ 8,075	\$ 7,769	\$ 562	\$ (121 )
Income (loss) allocable to the Company	\$ 825	\$ 792	\$ 65	\$ (5 )
Basis difference adjustment	102	150	777	300
Total loss from unconsolidated real estate entities attributable to the Company	\$ 927	\$ 942	\$ 842	\$ 295

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## 7. Debt

The Company's mortgage loans 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. Mortgage and senior unsecured revolving credit facility debt consisted of the following (dollars in thousands):

Collateral	Interest Rate	Maturity Date	6/30/17 Property Carrying Value	Balance Outstanding on Loan as of June 30, 2017	December 31, 2016
Senior Unsecured Revolving Credit Facility <sup>(1)</sup>	3.35 %	November 25, 2019	\$—	\$45,000	\$ 52,500
Residence Inn by Marriott New Rochelle, NY	5.75 %	September 1, 2021	19,612	13,953	14,141
Residence Inn by Marriott San Diego, CA	4.66 %	February 6, 2023	44,298	28,749	29,026
Homewood Suites by Hilton San Antonio, TX	4.59 %	February 6, 2023	32,320	16,415	16,575
Residence Inn by Marriott Vienna, VA	4.49 %	February 6, 2023	30,581	22,476	22,699
Courtyard by Marriott Houston, TX	4.19 %	May 6, 2023	32,478	18,568	18,758
Hyatt Place Pittsburgh, PA	4.65 %	July 6, 2023	35,251	22,652	22,864
Residence Inn by Marriott Bellevue, WA	4.97 %	December 6, 2023	68,314	45,835	46,206
Residence Inn by Marriott Garden Grove, CA	4.79 %	April 6, 2024	39,400	33,418	33,674
Residence Inn by Marriott Silicon Valley I, CA	4.64 %	July 1, 2024	81,009	64,800	64,800
Residence Inn by Marriott Silicon Valley II, CA	4.64 %	July 1, 2024	88,655	70,700	70,700
Residence Inn by Marriott San Mateo, CA	4.64 %	July 1, 2024	63,962	48,600	48,600
Residence Inn by Marriott Mountain View, CA	4.64 %	July 6, 2024	56,007	37,900	37,900
SpringHill Suites by Marriott Savannah, GA	4.62 %	July 6, 2024	36,906	30,000	30,000
Hilton Garden Inn Marina del Rey, CA	4.68 %	July 6, 2024	42,461	21,953	22,145
Homewood Suites by Hilton Billerica, MA	4.32 %	December 6, 2024	11,454	16,225	16,225
Homewood Suites by Hilton Carlsbad CA	4.32 %	December 6, 2024	29,440	19,950	19,950
Hampton Inn & Suites Houston Medical Center, TX	4.25 %	January 6, 2025	15,061	18,300	18,300
Total debt before unamortized debt issue costs			\$727,209	\$575,494	\$ 585,063
Unamortized mortgage debt issue costs				(2,417 )	(2,240 )
Total debt outstanding				\$573,077	\$ 582,823

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

At June 30, 2017 and December 31, 2016, the Company had \$45.0 million and \$52.5 million, respectively, of outstanding borrowings under its senior unsecured revolving credit facility. At June 30, 2017, 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 June 30, 2017 and December 31, 2016 was \$537.9 million and \$516.0 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 similar maturity and is classified within level 3 of the fair value hierarchy. As of June 30, 2017, 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 June 30, 2017 and December 31, 2016 was \$45.0 million and \$52.5 million, respectively.



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As of June 30, 2017, the Company was in compliance with all of its financial covenants. At June 30, 2017, the Company's consolidated fixed charge coverage ratio was 3.30 and the bank covenant is 1.5. Future scheduled principal payments of debt obligations as of June 30, 2017, for the current year and each of the next four calendar years and thereafter are as follows (in thousands):

	Amount
2017 (remaining six months)	\$2,262
2018	5,374
2019	52,340
2020	9,899
2021	22,308
2022	10,350
Thereafter	472,961
Total debt before unamortized debt issue costs	\$575,494
Unamortized mortgage debt issue costs	(2,417 )
Total debt outstanding	\$573,077

## 8. Income Taxes

The Company's TRS is subject to federal and state income taxes.

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

	For the three months ended June 30, 2016	For the six months ended June 30, 2017	2016
Federal	\$-152	\$271	\$152
State	—27	46	27
Tax expense (benefit)	\$-179	\$317	\$179

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 deferred tax assets. The Company's TRS is expecting increased taxable losses in 2017. As of June 30, 2017 and during the period, the TRS continues to recognize a full valuation allowance equal to 100% of the gross deferred tax asset due to the uncertainty of the TRS's ability to utilize these deferred tax assets. Management will continue to monitor the need for a valuation allowance on a quarterly basis.

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## 9. Dividends Declared and Paid

The Company declared total common share dividends of \$0.33 per share and distributions on LTIP units of \$0.33 per unit for the three months ended June 30, 2017 and \$0.66 per share and distributions on LTIP units of \$0.66 per unit for the six months ended June 30, 2017. The dividends and distributions were as follows:

Record Date	Payment Date	Common share distribution amount	LTIP unit distribution amount
Jan 31/2017	2/24/2017	\$ 0.11	\$ 0.11
Feb 28/2017	3/31/2017	0.11	0.11
Mar 31/2017	4/28/2017	0.11	0.11
1st Quarter 2017		\$ 0.33	\$ 0.33
Apr 28/2017	5/26/2017	\$ 0.11	\$ 0.11
May 26/2017	6/30/2017	0.11	0.11
Jun 30/2017	7/28/2017	0.11	\$ 0.11
2nd Quarter 2017		\$ 0.33	\$ 0.33
Total 2017		\$ 0.66	\$ 0.66

## 10. Earnings Per Share

The two-class method is used to determine earnings per share because unvested restricted shares and unvested LTIP units are considered to be participating shares. 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 three months ended June 30, 2017		For the six months ended June 30, 2016	
Numerator:				
Net income attributable to common shareholders	\$5,034	\$ 12,168	\$9,647	\$ 15,468
Dividends paid on unvested shares and units	(65 )	(48 )	(127 )	(94 )
Undistributed earnings allocated to unvested shares and units	—	—	—	—
Net income attributable to common shareholders	\$4,969	\$ 12,120	\$9,520	\$ 15,374
Denominator:				
Weighted average number of common shares - basic	38,525,308	38,299,132	38,443,668	38,286,790
Unvested shares	224,355	178,080	215,526	160,128

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Weighted average number of common shares - diluted	38,749,668	38,477,212	38,659,188	38,446,918
Basic income per Common Share:				
Net income attributable to common shareholders per weighted average basic common share	\$0.13	\$0.32	\$0.25	\$0.40
Diluted income per Common Share:				
Net income attributable to common shareholders per weighted average diluted common share	\$0.13	\$0.31	\$0.25	\$0.40

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## 11. Equity Incentive Plan

The Company maintains its Equity Incentive Plan to attract and retain independent trustees, executive officers and other key employees and service providers. The 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 years, though compensation for the Company's independent trustees includes share grants 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 not paid until those shares or units vest. Certain awards may provide for accelerated vesting if there is a change in control. In January 2017 and 2016, the Company issued 23,980 and 26,488 common shares, respectively, to its independent trustees as compensation for services performed in 2016 and 2015, 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 of 2016. The Company would have distributed 12,319 common shares for services performed in 2017 had this liability classified award been satisfied as of June 30, 2017. As of June 30, 2017, there were 1,871,942 common shares available for issuance under the Equity Incentive Plan.

## Restricted Share Awards

A summary of the shares granted to executive officers that have not fully vested pursuant to the Equity Incentive Plan as of June 30, 2017 is as follows:

Award Type	Award Date	Total Shares Granted	Vested
			as of June 30, 2017
2014 Time-based Awards	1/31/2014	48,213	48,213
2014 Performance-based Awards	1/31/2014	38,805	12,935
2015 Time-based Awards	1/30/2015	40,161	26,774
2015 Performance-based Awards	1/30/2015	36,144	—
2015 Time-based Awards	6/1/2015	8,949	5,966
2017 Restricted Board Awards	1/11/2017	5,000	—

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

The Company measures compensation expense for time-based share awards based upon the fair market value of its common shares at the date of grant. For the performance-based shares granted in 2014 and 2015, compensation expense is based on a valuation of \$13.17 and \$21.21, respectively, per performance share granted, which takes into account that some or all of the awards may not vest if long-term performance criteria are not met during the vesting period. The 2014 performance-based shares did not meet the vesting criteria for 2015 or 2016 causing those shares not to be eligible for future vesting.

The grant date fair values of the performance-based share awards were determined using a Monte Carlo simulation method with the following assumptions:

Performance Award	Risk Free Interest
Grant Volatility	Dividend Yield
Date	Rate
12/31/2014	—%
12/31/2015	—%
	0.71%
	0.84%

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



unvested time-based restricted shares. Dividends for performance-based shares are accrued and paid annually only if and to the extent that long-term performance criteria established by the Board of Trustees are met and the recipient remains employed by the Company on the vesting date.

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A summary of the Company's restricted share awards for the six months ended June 30, 2017 and the year ended December 31, 2016 is as follows:

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	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	110,825	\$ 22.05	170,480	\$ 21.38
Granted	5,000	20.20	—	—
Vested	(32,441 )	25.77	(59,655 )	20.14
Forfeited	(25,870 )	\$ 13.17	—	\$ —
Non-vested at end of the period	57,514	\$ 23.78	110,825	\$ 22.05

As of June 30, 2017 and December 31, 2016, there were \$0.5 million and \$0.9 million, respectively, of unrecognized compensation costs related to restricted share awards. As of June 30, 2017, these costs were expected to be recognized over a weighted-average period of approximately 0.9 years. For the three months ended June 30, 2017 and 2016, the Company recognized approximately \$0.2 million and \$0.3 million, respectively, and for the six months ended June 30, 2017 and 2016, the Company recognized approximately \$0.4 million and \$0.6 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 Units

The Company recorded \$0.7 million and \$0.3 million in compensation expense related to the LTIP units for the three months ended June 30, 2017 and 2016, respectively, and for the six months ended June 30, 2017 and 2016, the Company recognized approximately \$1.1 million and \$0.6 million, respectively. As of June 30, 2017 and December 31, 2016, there was \$5.8 million and \$2.6 million, respectively, of total unrecognized compensation cost related to LTIP units. This cost is expected to be recognized over approximately 2.3 years, which represents the weighted average remaining vesting period of the LTIP units. Upon the closing of the Company's equity offering on September 30, 2013, the Company determined that a revaluation event occurred, as defined in the Internal Revenue Code of 1986, as amended (the "Code"), and 26,250 LTIP units awarded in 2010 and held by one of the officers of the Company had achieved full parity with the common units of the Operating Partnership with respect to liquidating distributions and all other purposes. 100% of these units have vested as of June 30, 2017. As of June 4, 2014, the Company determined that a revaluation event occurred, as defined in the Code, and 231,525 LTIP units awarded in 2010 and held by two other officers of the Company had achieved full parity with the common units of the Operating Partnership with respect to liquidating distributions and all other purposes. As of June 30, 2017, 100% of these units have vested. As of June 1, 2017, the Company determined that a revaluation event occurred, as defined in the Code, and 118,791 and 128,859 LTIP units awarded in 2016 and 2017, respectively, and held by six officers of the Company had achieved full parity with the common units of the Operating Partnership with respect to liquidating distributions and all other purposes. As of June 30, 2017, 33% and 0% of these units awarded in 2016 and 2017, respectively, have vested. Accordingly, these LTIP units awarded in 2010, 2016 and 2017 are allocated their pro-rata share of the Company's net income.

A summary of the Company's LTIP Unit awards for the six months ended June 30, 2017 and the year ended December 31, 2016 is as follows:

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Number of Shares	Weighted - Average Grant	Number of Shares	Weighted - Average Grant

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		Date Fair Value		Date Fair Value
Non-vested at beginning of the period	295,551	\$ 14.36	183,300	\$ 14.13
Granted	223,922	19.20	112,251	14.73
Vested	(37,417 )	14.73	—	—
Non-vested at end of the period	482,056	\$ 16.58	295,551	\$ 14.36

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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 a long-term, multi-year performance plan (the "Outperformance Plan"). The awards granted pursuant to the Outperformance Plan are subject to two separate performance measurements, with 60% of the award (the "Absolute Award") based solely on the Company's total shareholder return ("TSR") (the "Absolute TSR Component") and 40% of the award (the "Relative Award") measured by the Company's TSR (the "Relative TSR Component") relative to the other companies (the "Index Companies") that were constituents of the SNL US REIT Hotel Index (the "Index") during the entire measurement period. Under the Absolute TSR Component, 37.5% of the Absolute Award is earned if the Company achieves a 25% TSR over the measurement period. That percentage increases on a linear basis with the full Absolute Award being earned at a 50% TSR over the measurement period. For TSR performance below 25%, no portion of the Absolute Award will be earned. Under the Relative TSR Component, 37.5% of the Relative Award is earned if the Company is at the 50th percentile of the Index Companies at the end of the measurement period. That percentage increases on a linear basis with the full Relative Award earned if the Company is at the 75th percentile of the Index Companies at the end of the measurement period. If the Company is below the 50th percentile of the Index Companies at the end of the measurement period, no portion of the Relative Award will be earned. Compensation expense is based on an estimated value of \$14.13 per Class A Performance LTIP unit, which takes into account that some or all of the awards may not vest if long-term performance criteria are not met during the vesting period. Awards earned under the Outperformance Plan will vest 50% at the end of the three-year measurement period on June 1, 2018 and 25% each on the one-year and two-year anniversaries of the end of the three-year measurement period, or June 1, 2019 and 2020, respectively, and provided that the recipient remains employed by the Company through the vesting dates. In the event of a Change in Control (as defined in the executive officers' employment agreements), Outperformance Plan awards will be earned contingent upon the attainment of a pro rata TSR hurdle for the Absolute Award and achievement of the relative TSR percentile for the Relative Award based upon the in-place formula and using the Change of Control as the end of measurement period. Vesting continues to apply to awards earned upon a Change of Control, subject to full acceleration upon termination without cause or resignation for good reason within 18 months of the Change of Control. 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.

## Time-Based Equity Incentive Awards

On January 28, 2016, the Company's Operating Partnership, upon the recommendation of the Compensation Committee, granted 72,966 time-based LTIP unit awards (the "2016 Time-Based LTIP Unit Award"). The grants were made pursuant to award agreements that provide for time-based vesting. The 2016 Time-Based LTIP Unit Awards vest ratably on each of January 28, 2017, January 28, 2018 and January 28, 2019 (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 2016 Time-Based LTIP Unit Awards. Compensation expense is based on an estimated value of \$16.69 per 2016 Time-Based LTIP Unit Award.

On March 1, 2017, the Company's Operating Partnership, upon recommendation of the Compensation Committee, granted 89,574 time-based awards (the "2017 Time-Based LTIP Unit Award"). The grants were made pursuant to the award agreements that provide for time-based vesting.

The 2017 Time-based LTIP Unit Awards will vest ratably on each of March 1, 2018, March 1, 2019 and March 1, 2020 (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 2017 Time-Based LTIP Unit Awards. Compensation expense is based on an estimated value of \$18.53 per 2017 Time-Based LTIP Unit Award.

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Performance-Based Equity Incentive Awards

On January 28, 2016, the Company's Operating Partnership, upon the recommendation of the Compensation Committee, also granted 39,285 performance-based LTIP unit awards (the "2016 Performance-Based LTIP Unit Awards"). The grants were made pursuant to award agreements that provide for performance-based vesting. The 2016 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 performance 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 \$11.09 per 2016 Performance-Based LTIP Unit Award, which takes into account that some or all of the awards may not vest if long-term performance criteria are not met during the vesting period.

The 2016 Performance-Based LTIP Unit Awards shall vest based on the following:

- (a) The number of Class A Performance LTIP Units that most nearly equals (but does not exceed) one-third of the Class A Performance LTIP Units issued pursuant to such 2016 Performance-Based LTIP Unit Award shall vest on January 28, 2017, if the Total Shareholder Return for the 12-month period beginning January 28, 2016 and ending on January 27, 2017 is 8% or more.
- (b) The number of Class A Performance LTIP Units that most nearly equals (but does not exceed) one-third of the Class A Performance LTIP Units issued pursuant to such 2016 Performance-Based LTIP Unit Award shall vest on January 28, 2018, if the Total Shareholder Return for the 12-month period beginning January 28, 2017 and ending on January 27, 2018 is 8% or more.
- (c) The number of Class A Performance LTIP Units that most nearly equals (but does not exceed) one-third of the Class A Performance LTIP Units issued pursuant to such 2016 Performance-Based LTIP Unit Award shall vest on January 28, 2019, if the Total Shareholder Return for the 12-month period beginning January 28, 2018 and ending on January 27, 2019 is 8% or more.
- (d) All of the Class A Performance LTIP Units issued pursuant to such 2016 Performance-Based LTIP Unit Award (less any Class A Performance LTIP Units that previously vested under paragraphs (a), (b) or (c) above), shall vest on January 28, 2019, if the average Total Shareholder Return for the 36-month period ending on January 27, 2019 is 8% or more.

For purposes of the 2016 Performance-Based LTIP Unit Awards, "Total Shareholder Return" means, with respect to the measurement periods described in paragraphs (a), (b), (c) and (d) above, the total percentage return per common share of the Company based on the closing price of the Company's common shares on the NYSE on the last trading day immediately preceding the first day of the applicable measurement period compared to the closing price of the Company's common shares on the NYSE on the last trading day of such measurement period and assuming contemporaneous reinvestment in Company common shares of all dividends and other distributions at the closing price of the Company's common shares on the date such dividend or other distribution was paid.

On March 1, 2017, the Company's Operating Partnership, upon the recommendation of the Compensation Committee, also granted 134,348 performance-based awards (the "2017 Performance-Based LTIP Unit Awards"). The grants were made pursuant to award agreements that provide for performance-based vesting. The 2017 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 performance criteria established by the Compensation Committee and (ii) the recipient remains employed by the Company through the 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 \$19.65 per 2017 Performance-Based LTIP Unit Award, which takes into account that some or all of the awards may not vest if long-term performance criteria are not met during the vesting period.

The 2017 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, 2017 and ending on February 28, 2020. The 2017 Performance-Based LTIP Unit Awards, if earned, will be paid out between 50% and 150% of target value as follows:

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	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 TSR hurdles are based on the Company's performance relative to the average TSR for the companies included in the SNL US Hotel REIT Index. TSR will be calculated to include share price appreciation plus dividends assuming the reinvestment of dividends as calculated by a third-party such as SNL Financial. The Company will estimate 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, and will calculate the value at the grant date based on the probable outcome of the performance conditions.

A holder of a Class A Performance LTIP Unit will generally (i) only be entitled, during the period prior to the vesting of such Class A Performance LTIP Unit, to receive 10% of the distributions made on a common unit of limited partnership interest ("Common Unit") in the Operating Partnership (the "Pre-Vesting Distributions"), and (ii) be entitled, upon the vesting of such Class A Performance LTIP Unit, to 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. In addition, prior to the vesting of a Class A Performance LTIP Unit, the holder of such Class A Performance LTIP Unit will not be entitled to vote on such Class A Performance LTIP Unit.

The LTIP units' fair value was determined using a 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 reaching the assumptions of uncertainty included discounts for illiquidity; expectations for future dividends; limited or no operations history as of the date of the grant; significant dependency on the efforts and services of our executive officers and other key members of management to implement the Company's business plan; available acquisition opportunities; and economic environment and conditions.

The grant date fair value of the performance LTIP awards were determined using a Monte Carlo simulation method with the following assumptions (based on the three-year risk free U.S. Treasury yield over the measurement period of the LTIP awards):

	Grant Date	Volatility	Dividend Yield	Risk Free Interest Rate	Discount
Outperformance Plan	6/1/2015	26%	4.5%	0.95%	—%
2016 Time-Based LTIP Unit Awards	1/28/2016	28%	—%	0.79%	7.5%
2016 Performance-Based LTIP Unit Awards	1/28/2016	30%	5.8%	1.13%	—%
2017 Time-Based LTIP Unit Awards	3/1/2017	24%	—%	0.92%	7.5%
2017 Performance-Based LTIP Unit Awards	3/1/2017	25%	5.8%	1.47%	—%

## 12. 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. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company or its properties.





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## Hotel Ground Rent

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

The Residence Inn Gaslamp hotel is subject to a ground lease with an expiration date 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 \$40,000 per month and increase 10% every five years. The hotel is subject to annual supplemental rent payments 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 is subject to an air rights lease and garage lease that each expire 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 2017 is approximately \$26,000 per quarter.

The Hilton Garden Inn Marina del Rey hotel is subject to a ground lease with an expiration date of December 31, 2067. Minimum monthly payments are currently approximately \$43,000 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.

## Office Lease

The Company entered into a new 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.

Future minimum rental payments under the terms of all non-cancellable operating ground leases and the office lease under which the Company is the lessee are expensed on a straight-line basis regardless of when payments are due. The following is a schedule of the minimum future payments required under the ground, air rights, garages leases and office lease as of June 30, 2017, for the remainder of 2017 and for each of the next four calendar years and thereafter (in thousands):

	Other Leases <sup>(1)</sup> Amount	Office Lease
2017 (remaining six months)	\$608	\$380
2018	1,217	772
2019	1,220	792
2020	1,267	812
2021	1,273	832
2022	1,276	853
Thereafter	68,178	3,310
Total	\$75,039	\$7,751

(1) Other leases includes ground, garage and air rights leases at our hotels.

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## Management Agreements

The management agreements with Concord Hospitality Services Company ("Concord") had an initial ten-year term that would have expired on February 28, 2017. The management agreements with Concord were terminated as of December 31, 2016. The company entered into management agreements with IHM for the hotels previously managed by Concord beginning January 1, 2017.

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.

In addition to entering into agreements with IHM to manage two of the hotels formerly managed by Concord, upon renewal in July 2016, five management agreements related to the Residence Inns were amended to be consistent with the remainder of the hotel portfolio. The updated agreements are summarized as follows:

Property	Courtyard Altoona	Springhill Suites Washington	Residence Inn Garden Grove	Residence Inn San Diego	Residence Inn San Antonio	Residence Inn Vienna	Residence Inn Washington D.C.		
Original Management Fee	4.0	% 4.0	% 2.5	% 2.5	% 2.5	% 2.5	% 2.5	%	
Amended Management Fee	3.0	% 3.0	% 3.0	% 3.0	% 3.0	% 3.0	% 3.0	%	
Original Monthly Accounting Fee	1,211	991	1,000	1,000	1,000	1,000	1,000		
Amended Monthly Accounting Fee	1,500	1,200	1,200	1,200	1,200	1,200	1,200		
Original Monthly Revenue Management Fee	—	—	—	—	—	—	—		
Amended Monthly Revenue Management Fee	1,000	1,000	1,000	1,000	1,000	1,000	1,000		

The company five renewed management agreements in 2017. The updated agreements are summarized as follows:

Property	Homewood Suites Billerica	Homewood Suites Bloomington	Homewood Suites Maitland	Homewood Suites Dallas	Homewood Suites Brentwood	Homewood Suites Farmington		
Renewal Date	4/1/2017	4/1/2017	5/1/2017	5/1/2017	6/1/2017	8/1/2017		
Original Management Fee	2.0	% 2.0	% 2.0	% 2.0	% 2.0	% 2.0	%	
Amended Management Fee	3.0	% 3.0	% 3.0	% 3.0	% 3.0	% 3.0	%	
Original Monthly Accounting Fee	1,000	1,000	1,000	1,000	1,000	1,000		
Amended Monthly Accounting Fee	1,200	1,200	1,200	1,200	1,200	1,200		
Original Monthly Revenue Management Fee	550	550	550	550	550	550		
Amended Monthly Revenue Management Fee	1,000	1,000	1,000	1,000	1,000	1,000		

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Management fees totaled approximately \$2.6 million and \$2.4 million, respectively, for the three months ended June 30, 2017 and 2016, respectively and approximately \$4.8 million and \$4.6 million, respectively, for the six months ended June 30, 2017 and 2016.

Franchise Agreements

The fees associated with the franchise agreements are calculated on the specified percentage of the hotel's gross room revenue. The Company did not enter into any new franchise agreements during the six months ended June 30, 2017 and 2016, respectively. Franchise and marketing fees totaled approximately \$6.1 million and \$5.9 million, respectively, for the three months ended June 30, 2017 and 2016 and approximately \$11.4 million and \$11.1 million, respectively, for the six months ended June 30, 2017 and 2016.

13. Related Party Transactions

Mr. Fisher owns 51% of IHM. As of June 30, 2017, the Company had hotel management agreements with IHM to manage 38 of its wholly owned hotels. As of June 30, 2017, all 47 hotels owned by the NewINK JV and 34 of the 48 hotels owned by the Inland JV are managed by IHM. Hotel management, revenue management and accounting fees accrued or paid to IHM for the hotels owned by the Company for the three months ended June 30, 2017 and 2016 were \$2.6 million and \$2.3 million, respectively, and for the six months ended June 30, 2017 and 2016 were \$4.4 million and \$3.9 million, respectively. At June 30, 2017 and December 31, 2016, the amounts due to IHM were \$1.1 million and \$0.9 million, respectively.

Cost reimbursements from unconsolidated real estate entities revenue represent reimbursements of costs incurred on behalf of the NewINK JV, Inland JV and an entity, Castleblack Owner Holding, LLC ("Castleblack"), which is 97.5% owned by affiliates of CLNS and 2.5% owned by Mr. Fisher. These costs relate primarily to corporate payroll costs at the NewINK JV and Inland JV where the Company is the employer. As the Company records cost reimbursements based upon costs incurred with no added markup, the revenue and related expense has no impact on the Company's operating income or net income. Cost reimbursements from the 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 expense 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 three months ended June 30, 2017 and 2016 were \$1.5 million and \$1.3 million, respectively, and for the six months ended June 30, 2017 and 2016 were \$3.0 million and \$3.2 million, respectively.

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

Dollar amounts presented in this Item 2 are in thousands, except per share data, unless otherwise specified.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2016. In this report, we use the terms "the Company," "we" or "our" to refer to Chatham Lodging Trust and its consolidated subsidiaries, unless the context indicates otherwise.

### Statement Regarding Forward-Looking Information

The following information contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include information about possible or assumed future results of the lodging industry and our business, financial condition, liquidity, results of operations, cash flow and plans and objectives. These statements generally are characterized by the use of the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions. Although we believe that the expectations reflected in our forward-looking statements are based upon reasonable assumptions, our actual results could differ materially from those set forth in the forward-looking statements. Some factors that might cause such a difference include the following: local, national and global economic conditions, increased direct competition, changes in government regulations or accounting rules, changes in local, national and global real estate conditions, declines in lodging industry fundamentals, increased operating costs, seasonality of the lodging industry, our ability to obtain debt and equity financing on satisfactory terms, changes in interest rates, our ability to identify suitable investments, our ability to close on identified investments and inaccuracies of our accounting estimates. Given these uncertainties, undue reliance should not be placed on such statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances or to reflect the occurrence of unanticipated events. The forward-looking statements should also be read in light of the risk factors identified in the "Risk Factors" section in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 as updated by the Company's subsequent filings with the SEC under the Exchange Act.

### Overview

We are a self-advised hotel investment company organized in October 2009 that commenced operations in April 2010. Our investment strategy is to invest in upscale extended-stay and premium-branded select-service hotels in geographically diverse markets with high barriers to entry near strong demand generators. We may acquire portfolios of hotels or single hotels. We expect that a significant portion of our portfolio will consist of hotels in the upscale extended-stay or select-service categories, including brands such as Homewood Suites by Hilton®, Residence Inn by Marriott®, Hyatt Place®, Courtyard by Marriott®, Hilton Garden Inn by Hilton®, Hampton Inn® and Hampton Inn and Suites®.

The Company's future hotel acquisitions may be funded by issuances of both common and preferred shares or the issuance of partnership interests in our operating partnership, Chatham Lodging, L.P. (the "Operating Partnership"), draw-downs under our senior unsecured revolving credit facility, the incurrence or assumption of debt, available cash, proceeds from dispositions of assets or distributions from our 10.3% investment in a joint venture with affiliates of Colony NorthStar, Inc. ("CLNS") that owns 47 hotels (the "NewINK JV") or distributions from our 10.0% investment in a joint venture with CLNS that owns 48 hotels (the "Inland JV" and together with the NewINK JV, the "JVs"). We intend to acquire quality assets at attractive prices and improve their returns through knowledgeable asset management and seasoned, proven hotel management while remaining prudently leveraged.

## Edgar Filing: Chatham Lodging Trust - Form 10-Q

At June 30, 2017, our leverage ratio was 38.8% 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 the JV investments. Over the past several years, we have maintained a leverage ratio between the mid-30s and the low 50s to fund our acquisitions and JV investments. As of June 30, 2017, we have total debt of \$575.5 million at an average rate of approximately 4.6%. Accordingly, 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. We intend to continue to fund our investments with a prudent balance of debt and equity.

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

Financial Condition and Operating Performance Metrics

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

- Revenue Per Available Room (“RevPAR”),
- Average Daily Rate (“ADR”),
- Occupancy,
- Funds From Operations (“FFO”),
- Adjusted FFO,
- Earnings before interest, taxes, depreciation and amortization (“EBITDA”),
- 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. RevPAR, which is calculated as total room revenue divided by total number of available rooms, is an important metric for monitoring hotel operating performance, and more specifically hotel revenue.

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

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## 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. Trends for many of these indicators appear to be moderating. GDP growth is currently modest, with growth of 1.2% in the first quarter of 2017 and 2.6% in the second quarter of 2017. Lodging industry performance is also impacted by room supply growth, which is currently increasing. Overall U.S. room supply increased 1.6% in 2016, but supply in the Upscale segment, in which most of our hotels operate, increased by 5.6% in 2016. Year to date in 2017 overall U.S. room supply growth was 1.8% and supply growth in the Upscale segment was 6.0%. Smith Travel Research is projecting U.S. hotel supply growth to increase 2.0% in 2017. Continued supply growth, especially when coupled with slowing corporate demand, could negatively impact RevPAR growth. We are currently projecting a 2017 RevPAR change of -1.0% to +1.0% as compared to 2016.

## Comparison of the three months ended June 30, 2017 to the three months ended June 30, 2016

Results of operations for the three months ended June 30, 2017 include the operating activities of our 38 wholly owned hotels and our investments in the NewINK JV and Inland JV.

## Revenues

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):

	For the three months ended		
	June 30, 2017	June 30, 2016	% Change
Room	\$72,801	\$72,768	— %
Food and beverage	1,473	1,726	(14.7)%
Other	2,967	2,637	12.5 %
Cost reimbursements from unconsolidated real estate entities	668	870	(23.2)%
Total revenue	\$77,909	\$78,001	(0.1) %

Total revenue was \$77.9 million for the quarter ended June 30, 2017, down \$0.1 million compared to total revenue of \$78.0 million for the corresponding 2016 period. Since all of our hotels are select-service or limited-service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue comprised 93.4% and 93.3%, respectively, of total revenue for the quarters ended June 30, 2017 and 2016. Room revenue was \$72.8 million and \$72.8 million for the quarters ended June 30, 2017 and 2016, respectively, with room revenue remaining static compared to the comparable quarter from 2016.

Food and beverage revenue was \$1.5 million for the quarter ended June 30, 2017, down \$0.3 million compared to \$1.7 million for the corresponding 2016 period in part due to lower occupancy for the quarter.

Other operating revenue, comprised of meeting room, gift shop, in-room movie and other ancillary amenities revenue, was up \$0.3 million three months ended June 30, 2017. Other operating revenue was \$3.0 million and \$2.6 million for the quarters ended June 30, 2017 and 2016, respectively. Increases were primarily due to increases in guaranteed no show bookings, restaurant lease income and an insurance settlement.

Cost reimbursements from unconsolidated real estate entities, comprised of payroll costs at the JVs and an entity which is 97.5% owned by affiliates of CLNS and 2.5% by Mr. Fisher, where the Company is the employer, were \$0.7 million and \$0.9 million for the three months ended June 30, 2017 and 2016, respectively. Cost reimbursements decreased in 2017 due to a change in percentage of costs reimbursed for construction employees based on changes in the number of properties being renovated from 2016 to 2017 at the various portfolios. The decline in cost reimbursements was offset by the decline in reimbursed costs from unconsolidated real estate entities included in



operating expenses.

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As reported by Smith Travel Research, industry RevPAR for the three months ended June 30, 2017 and 2016 increased 2.7% and 3.5%, respectively, in the 2017 and 2016 periods as compared to the respective prior periods. RevPAR at our wholly owned hotels decreased 0.5% and increased 0.6%, respectively, in the 2017 and 2016 periods as compared to the respective prior periods.

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 38 hotels wholly owned by the Company as of June 30, 2017 reflect the performance of the hotels during the entire period, regardless of our ownership during the period presented, which is a non-GAAP financial measure. Results for the hotels for periods prior to our ownership were provided to us by prior owners and have not been adjusted by us.

	For the three months ended June 30,						Percentage	
	2017		2016		Change			
	Same Property (38 hotels)	Actual (38 hotels)	Same Property (38 hotels)	Actual (38 hotels)	Same Property (38 hotels)	Actual (38 hotels)		
Occupancy	82.8 %	82.8 %	85.7 %	85.7 %	(3.3)%	(3.3)%		
ADR	\$169.06	\$169.06	\$164.28	\$164.28	2.9 %	2.9 %		
RevPAR	\$140.06	\$140.06	\$140.78	\$140.78	(0.5)%	(0.5)%		

RevPAR decreased 0.5% primarily due to an increase in ADR of 2.9% and a decrease in occupancy of 3.3%. As the lodging cycle matures, occupancy growth stabilizes and hotels drive most of their increases in room revenue through increases in rates.

**Hotel Operating Expenses**

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

	For the three months ended			%
	June 30, 2017	June 30, 2016	Change	
Hotel operating expenses:				
Room	\$15,024	\$14,574	3.1	%
Food and beverage	1,212	1,245	(2.7)	%
Telephone	387	430	(10.0)	%
Other	710	638	11.3	%
General and administrative	5,974	5,700	4.8	%
Franchise and marketing fees	6,089	5,948	2.4	%
Advertising and promotions	1,270	1,344	(5.5)	%
Utilities	2,352	2,235	5.2	%
Repairs and maintenance	3,179	3,158	0.7	%
Management fees	2,588	2,384	8.6	%
Insurance	295	338	(12.7)	%
Total hotel operating expenses	\$39,080	\$37,994	2.9	%

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Hotel operating expenses increased \$1.1 million or 2.9% to \$39.1 million for the three months ended June 30, 2017 from \$38.0 million for the three months ended June 30, 2016.

Room expenses, which are the most significant component of hotel operating expenses, increased \$0.5 million or 3.1% from \$14.6 million in 2016 to \$15.0 million in the second quarter of 2017. The increase was primarily due to a workers compensation insurance credit in 2016.

The remaining hotel operating expenses increased \$0.6 million, from \$23.4 million in the second quarter of 2016 to \$24.1 million in the second quarter of 2017. The increase was primarily due to increases in bonuses, utility costs and management fees.

Depreciation and Amortization

Depreciation and amortization expense decreased \$0.6 million from \$12.3 million for the three months ended June 30, 2016 to \$11.7 million for the three months ended June 30, 2017. The decrease is due to lower depreciation due to some assets being fully depreciated. 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 furniture, fixtures and equipment from the date of acquisition on a straight-line basis. Depreciable lives of hotel furniture, fixtures and equipment are generally between the date of acquisition and the 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 \$0.6 million from \$5.0 million for the three months ended June 30, 2016 to \$5.6 million for the three months ended June 30, 2017. The increase is primarily attributed to increased real estate taxes at our hotels.

General and Administrative

General and administrative expenses principally consist of employee-related costs, including base payroll, bonuses and amortization of restricted stock and awards of long-term incentive plan ("LTIP") units in the Operating Partnership. These expenses also include corporate operating costs, professional fees and trustees' fees. Total general and administrative expenses (excluding amortization of stock based compensation of \$1.0 million and \$0.8 million for the three months ended June 30, 2017 and 2016, respectively) increased \$0.1 million to \$2.3 million for the three months ended June 30, 2017 from \$2.2 million in the three months ended June 30, 2016 with the increase primarily due to professional fees and travel expenses.

Hotel Property Acquisition Costs and Other Charges

Hotel property acquisition costs and other charges decreased from \$0.3 million for the three months ended June 30, 2016 to \$15 thousand for the three months ended June 30, 2017. There has been no acquisition activity this year.

Reimbursed Costs from Unconsolidated Real Estate Entities

Reimbursed costs from unconsolidated real estate entities, comprised of corporate payroll costs at the NewINK and Inland JVs and an entity which is 97.5% owned by affiliates of CLNS and 2.5% by Mr. Fisher, where the Company is the employer, were \$0.7 million and \$0.9 million for the three months ended June 30, 2017 and 2016, respectively. Reimbursed costs decreased in 2017 due to a change in percentage of costs reimbursed for construction employees based on changes in the number of properties being renovated from 2016 to 2017 at the various portfolios. The decline in costs reimbursements was offset by the decline in cost reimbursements from unconsolidated real estate entities included in revenues.

Interest and Other Income

Interest on cash and cash equivalents and other income decreased \$9 thousand from \$15 thousand for the three months ended June 30, 2016 to \$6 thousand for the three months ended June 30, 2017.

Interest Expense, Including Amortization of Deferred Fees

Interest expense decreased \$0.3 million from \$7.1 million for the three months ended June 30, 2016 to \$6.8 million for the three months ended June 30, 2017 and is comprised of the following (dollars in thousands):

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	For the three months ended			%
	June 30, 2017	June 30, 2016	Change	
Mortgage debt interest	\$6,310	\$6,302	0.1	%
Credit facility interest and unused fees	582	510	14.1	%
Amortization of deferred financing costs	(119 )	280	(142.5)	%
Total	\$6,773	\$7,092	(4.5 )	%

The decrease in interest expense for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 is primarily due to a change in amortization of deferred financing fees. Interest expense on the Company's senior unsecured revolving credit facility increased due to an increase in LIBOR for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

**Impairment Loss**

Impairment loss was \$6.7 million for the three months ended June 30, 2017, compared to \$0.0 million for the three months ended June 30, 2016. The Company recorded an impairment at our Washington SHS, PA hotel.

**Income from Unconsolidated Real Estate Entities**

Income from unconsolidated real estate entities was \$0.9 million for the three months ended June 30, 2016 and \$0.9 million for the three months ended June 30, 2017.

**Loss on Sale from Unconsolidated Real Estate Entities**

Loss on sale from unconsolidated real estate entities decreased \$8.0 thousand to \$0.0 thousand for the three months ended June 30, 2017 from \$8.0 thousand for the three months ended June 30, 2016 due to finalizing the sale proration of the Torrance JV. There were no sales of unconsolidated real estate entities in 2017.

**Income Tax Expense**

Income tax expense for the three months ended June 30, 2017 and 2016 was \$0.0 million and \$0.2 million, respectively.

**Net Income**

Net income was \$5.1 million for the three months ended June 30, 2017, compared to net income of \$12.3 million for the three months ended June 30, 2016. The change in 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 report and in the risk factors identified in our Annual Report on Form 10-K for the year ended December 31, 2016.

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Comparison of the six months ended June 30, 2017 to the six months ended June 30, 2016

Results of operations for the six months ended June 30, 2017 include the operating activities of our 38 wholly owned hotels and our investments in the NewINK JV and Inland JV.

#### Revenues

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):

	Six Months Ended		
	June 30, 2017	June 30, 2016	% Change
Room	\$137,194	\$136,702	0.4 %
Food and beverage	2,975	3,234	(8.0) %
Other	5,413	4,990	8.5 %
Cost reimbursements from unconsolidated real estate entities	1,549	1,924	(19.5) %
Total revenue	\$147,131	\$146,850	0.2 %

Total revenue was \$147.1 million for the six months ended June 30, 2017, up \$0.2 million compared to total revenue of \$146.9 million for the corresponding 2016 period. Since all of our hotels are select-service or limited-service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue comprised 93.2% and 93.1% of total revenue for the six months ended June 30, 2017 and 2016, respectively. Room revenue was \$137.2 million and \$136.7 million for the six months ended June 30, 2017 and 2016, respectively, with \$0.5 million of the increase in 2017 attributable to an increase in RevPAR of 0.3%.

Food and beverage revenue was \$3.0 million, for the six months ended June 30, 2017, down \$0.2 million, compared to \$3.2 million for the corresponding 2016 period due in part to lower occupancy for the period.

Other operating revenue, comprised of meeting room, gift shop, in-room movie and other ancillary amenities revenue, was \$5.4 million and \$5.0 million for the six months ended June 30, 2017 and 2016, respectively. The increase in other operating revenue related primarily to guaranteed no show bookings, restaurant lease income and an insurance settlement.

Cost reimbursements from unconsolidated real estate entities, comprised of payroll costs at the JVs and an entity which is 97.5% owned by affiliates of CLNS and 2.5% by Mr. Fisher, where the Company is the employer, were \$1.5 million and \$1.9 million for the six months ended June 30, 2017 and 2016, respectively. Cost reimbursements decreased in 2017 due to a change in percentage of costs reimbursed for construction employees based on changes in the number of properties being renovated from 2016 to 2017 at the various portfolios. The decline in cost reimbursements was offset by the decline in reimbursed costs from unconsolidated real estate entities included in operating expenses.

As reported by Smith Travel Research, industry RevPAR for the six months ended June 30, 2017 and 2016 increased 3.0% and 3.1%, respectively, in the 2017 and 2016 periods as compared to the respective prior year periods. RevPAR at our wholly owned hotels increased 0.3% and 1.5%, respectively, in the 2017 and 2016 periods as compared to the respective prior year periods.

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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 38 hotels wholly owned by the Company as of June 30, 2017 reflect the performance of the hotels during the entire period, regardless of our ownership during the period presented, which is a non-GAAP financial measure. Results for the hotels for periods prior to our ownership were provided to us by prior owners and have not been adjusted by us.

For the six months ended June 30,							
2017		2016		Percentage Change			
Same Property (38 hotels)	Actual (38 hotels)	Same Property (38 hotels)	Actual (38 hotels)	Same Property (38 hotels)	Actual (38/38 hotels)		
Occupancy	79.8 %	79.8 %	81.7 %	81.7 %	(2.3)%	(2.3)%	
ADR	\$166.29	\$166.29	\$161.89	\$161.89	2.7 %	2.7 %	
RevPAR	\$132.70	\$132.70	\$132.26	\$132.26	0.3 %	0.3 %	

The RevPAR increase of 0.3% was due to an increase in ADR of 2.7% and an decrease in occupancy of 2.3%. As the lodging cycle matures, occupancy growth stabilizes and hotels drive most of their increases in room revenue through increases in rates.

**Hotel Operating Expenses**

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

	For the six months ended				
	June 30, 2017	June 30, 2016	Change		
Hotel operating expenses:					
Room	\$28,529	\$28,385	0.5 %		
Food and beverage	2,464	2,423	1.7 %		
Telephone	795	851	(6.6)%		
Other	1,310	1,227	6.8 %		
General and administrative	11,628	11,196	3.9 %		
Franchise and marketing fees	11,391	11,136	2.3 %		
Advertising and promotions	2,602	2,696	(3.5)%		
Utilities	4,722	4,617	2.3 %		
Repairs and maintenance	6,431	6,359	1.1 %		
Management fees	4,835	4,613	4.8 %		
Insurance	628	675	(7.0)%		
Total hotel operating expenses	\$75,335	\$74,178	1.6 %		

Hotel operating expenses increased \$1.1 million to \$75.3 million for the six months ended June 30, 2017 from \$74.2 million for the six months ended June 30, 2016.

Room expenses, which are the most significant component of hotel operating expenses, remained static from \$28.4 million for the six months ended June 30, 2016 compared to \$28.5 million for the six months ended June 30, 2017. The increase was primarily due to a workers compensation insurance credit in 2016.

The remaining hotel operating expenses increased \$1.0 million, from \$45.8 million for the six months ended June 30, 2016 to \$46.8 million for the six months ended June 30, 2017. The increase in remaining hotel operating expenses is

mainly attributable bonuses, franchise fees related to increased revenues, utilities costs and management fees.

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Table of Contents**Depreciation and Amortization**

Depreciation and amortization expense decreased \$1.1 million from \$24.8 million for the six months ended June 30, 2016 to \$23.7 million for the six months ended June 30, 2017. The decrease is due to lower depreciation due to some assets being fully depreciated. 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 furniture, fixtures and equipment from the date of acquisition on a straight-line basis. Depreciable lives of hotel furniture, fixtures and equipment are generally between the date of acquisition and the 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 and insurance expenses increased \$0.4 million from \$10.0 million for the six months ended June 30, 2016 to \$10.4 million for the six months ended June 30, 2017. The increase is primarily attributed to increased real estate taxes at our hotels.

**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 \$1.8 million and \$1.5 million for the six months ended June 30, 2017 and 2016, respectively) increased \$0.2 million to \$4.8 million for the six months ended June 30, 2017 from \$4.6 million for the six months ended June 30, 2016, with the increase primarily due to salaries, professional fees, travel expenses and office expenses.

**Hotel Property Acquisition Costs and Other Charges**

Hotel property acquisition costs and other charges decreased \$0.3 million from \$0.3 million for the six months ended June 30, 2016 to \$15.0 thousand for the six months ended June 30, 2017. Property acquisition costs of \$0.3 million in the 2016 period related to a prior acquisition for which final amounts were more than previously accrued.

Acquisition-related costs are expensed when incurred.

**Reimbursed Costs from Unconsolidated Real Estate Entities**

Reimbursed costs from unconsolidated real estate entities, comprised of corporate payroll costs at the JVs and an entity which is 97.5% owned by affiliates of CLNS and 2.5% by Mr. Fisher, where the Company is the employer, were \$1.5 million and \$1.9 million for the six months ended June 30, 2017 and 2016, respectively. Reimbursed costs decreased in 2017 due to a change in percentage of costs reimbursed for construction employees based on changes in the number of properties being renovated from 2016 to 2017 at the various portfolios. The decline in costs reimbursements was offset by the decline in cost reimbursements from unconsolidated real estate entities included in revenues.

**Interest and Other Income**

Interest on cash and cash equivalents and other income decreased \$18.0 thousand from \$36.0 thousand for the six months ended June 30, 2016 to \$18.0 thousand for the six months ended June 30, 2017.

**Interest Expense, Including Amortization of Deferred Fees**

Interest expense decreased \$0.3 million from \$14.1 million for the six months ended June 30, 2016 to \$13.8 million for the six months ended June 30, 2017 and is comprised of the following (dollars in thousands):

	For the six months ended		
	June 30, 2017	June 30, 2016	% Change
Mortgage debt interest	\$12,495	\$12,571	(0.6)%
Credit facility interest and unused fees	1,129	1,009	11.9%
Amortization of deferred financing costs	141	549	(74.3)%
Total	\$13,765	\$14,129	(2.6)%





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The decrease in interest expense for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 is primarily due to a change in amortization of deferred financing fees. Interest expense on the Company's senior unsecured revolving credit facility increased due to an increase in LIBOR in the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

**Impairment Loss**

Impairment loss was \$6.7 million for the six months ended June 30, 2017, compared to \$0.0 million for the six months ended June 30, 2016. The Company recorded an impairment at our Washington SHS, PA hotel during the six months ended June 30, 2017.

**Loss on Early Extinguishment of Debt**

Loss on early extinguishment of debt was zero for the six months ended June 30, 2017, compared to \$4.0 thousand for the six months ended June 30, 2016, due to paying off the loan associated with the Altoona hotel in January 2016 instead of at the maturity date of April 2016.

**Income from Unconsolidated Real Estate Entities**

Income from unconsolidated real estate entities increased \$0.5 million from income of \$0.3 million for the six months ended June 30, 2016 to income of \$0.8 million for the six months ended June 30, 2017. The increase is due primarily to a loss on the Inland JV of \$0.1 million and income on the NewINK JV of \$1.0 million for the six months ended June 30, 2017, compared to a loss of \$0.3 million on the Inland JV, which was conducting renovations at multiple hotels, and income of \$0.6 million on the NewINK JV for the six months ended June 30, 2016.

**Loss on Sale from Unconsolidated Real Estate Entities**

Loss on sale from unconsolidated real estate entities decreased \$8.0 thousand from \$8.0 thousand for the six months ended June 30, 2016 to zero for the six months ended June 30, 2017 due to the finalizing the sale proration of Torrance JV. There were no sales of unconsolidated real estate entities in 2017.

**Income Tax Expense**

Income tax expense increased \$0.1 million from \$0.2 million for the six months ended June 30, 2016 to \$0.3 million for the six months ended June 30, 2017. The TRS incurred a tax loss in 2017. There is a valuation allowance resulting in a zero tax provision.

**Net Income**

Net income was \$9.7 million for the six months ended June 30, 2017, compared to net income of \$15.6 million for the six months ended June 30, 2016. The change in net income was due to the factors discussed above.

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Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our operating performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, (4) Adjusted EBITDA and (5) 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, 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, Adjusted EBITDA and Adjusted Hotel EBITDA are not measures of our liquidity, nor are FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and 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, 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 these items, FFO is useful to investors in comparing our operating performance between periods and between REITs that also 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 hotel property acquisition costs and other charges, losses on the early extinguishment of debt and similar items related to our unconsolidated real estate entities that we believe do not represent 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.

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The following is a reconciliation of net income to FFO and Adjusted FFO for the three and six months ended June 30, 2017 and 2016 (in thousands, except share data):

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Funds From Operations (“FFO”):				
Net income	\$5,069	\$ 12,250	\$9,713	\$ 15,572
Loss on sale from unconsolidated real estate entities	—	8	—	8
Depreciation	11,661	12,227	23,611	24,649
Impairment loss	6,663	—	6,663	—
Adjustments for unconsolidated real estate entity items	1,763	2,015	3,234	3,976
FFO attributable to common share and unit holders	25,156	26,500	43,221	44,205
Hotel property acquisition costs and other charges	15	298	15	310
Loss on early extinguishment of debt	—	—	—	4
Adjustments for unconsolidated real estate entity items	8	13	15	23
Adjusted FFO attributable to common share and unit holders	\$25,179	\$ 26,811	\$43,251	\$ 44,542
Weighted average number of common shares				
Basic	38,795,416	38,556,907	38,707,646	38,544,565
Diluted	39,019,778	38,734,987	38,923,168	38,704,693

Diluted weighted average number of 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 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.

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

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

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The following is a reconciliation of net income to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2017 and 2016 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”):				
Net income	\$5,069	\$12,250	\$9,713	\$15,572
Interest expense	6,773	7,092	13,765	14,129
Income tax expense	—	179	317	179
Depreciation and amortization	11,714	12,281	23,718	24,756
Adjustments for unconsolidated real estate entity items	3,825	3,968	7,137	7,950
EBITDA	27,381	35,770	54,650	62,586
Hotel property acquisition costs and other charges	15	298	15	310
Impairment loss	6,663	—	6,663	—
Loss on early extinguishment of debt	—	—	—	4
Adjustments for unconsolidated real estate entity items	28	27	42	36
Loss on sale from unconsolidated real estate entities	—	8	—	8
Share based compensation	999	759	1,786	1,495
Adjusted EBITDA	\$35,086	\$36,862	\$63,156	\$64,439

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Adjusted Hotel EBITDA is defined as net income before interest, income taxes, depreciation and amortization, corporate general and administrative, hotel property acquisition costs, loss on early extinguishment of debt, interest and other income 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 three and six months ended June 30, 2017 and 2016 (in thousands):

	For the three months ended		For the six months ended	
	June 30,	2016	June 30,	2016
	2017		2017	
Net Income	\$ 5,069	\$ 12,250	\$9,713	\$15,572
Add:				
Interest expense	6,773	7,092	13,765	14,129
Income tax expense	—	179	317	179
Depreciation and amortization	11,714	12,281	23,718	24,756
Corporate general and administrative	3,287	2,972	6,555	6,084
Hotel property acquisition costs and other charges	15	298	15	310
Impairment loss	6,663	—	6,663	—
Loss on early extinguishment of debt	—	—	—	4
Loss on sale from unconsolidated real estate entities	—	8	—	8
Less:				
Interest and other income	(6	) (15	) (18	) (36
Income from unconsolidated real estate entities	(927	) (942	) (842	) (295
Adjusted Hotel EBITDA	\$ 32,588	\$ 34,123	\$59,886	\$60,711

Although we present FFO, Adjusted FFO, EBITDA, 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, 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, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

- FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect funds available to make cash distributions;

- EBITDA, 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, 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, Adjusted EBITDA and Adjusted Hotel EBITDA differently than we do, limiting their usefulness as a comparative measure.



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In addition, FFO, Adjusted FFO, EBITDA, 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, 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, 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 June 30, 2017 and December 31, 2016, we had cash and cash equivalents of approximately \$12.8 million and \$12.1 million, respectively. Additionally, we had \$205.0 million available under our \$250.0 million senior unsecured revolving credit facility as of June 30, 2017.

For the six months ended June 30, 2017, net cash flows provided by operations were \$36.6 million, driven by net income of \$9.7 million, \$31.4 million of non-cash items including \$23.8 million of depreciation and amortization, \$6.7 million of impairment loss, \$1.8 million of share-based compensation expense, offset by \$0.9 million related to income from unconsolidated entities. In addition, changes in operating assets and liabilities due to the timing of cash receipts, payments for real estate taxes, payments of corporate compensation and payments from our hotels resulted in net cash outflow of \$4.5 million. Net cash flows used in investing activities were \$17.1 million, primarily related to capital improvements on our 38 wholly owned hotels of \$12.9 million and \$5.0 million related to our Inland JV investment, offset by distributions of \$0.7 million from unconsolidated real estate entities and \$0.1 million related to escrow disbursements of restricted cash. Net cash flows used by financing activities were \$18.8 million, comprised of \$16.9 million of common equity proceeds raised through sales under our at-the-market plan ("ATM Plan") and dividend reinvestment and share purchase plan ("DRSPP"), net repayments of our senior unsecured revolving credit facility of \$7.5 million, principal payments or payoffs on mortgage debt of \$2.1 million, payments of deferred financing and offering costs of \$0.5 million, and distributions to shareholders of \$25.6 million.

For the six months ended June 30, 2016, net cash flows provided by operations were \$39.6 million, driven by net income of \$15.6 million, \$26.5 million of non-cash items including \$25.3 million of depreciation and amortization and \$1.5 million of share-based compensation expense, a \$4 thousand loss on early extinguishment of debt, offset by \$0.3 million related to loss from unconsolidated entities. In addition, changes in operating assets and liabilities due to the timing of cash receipts, payments for real estate taxes, payments of corporate compensation and payments from our hotels resulted in net cash outflow of \$2.5 million. Net cash flows used in investing activities were \$10.9 million, primarily related to capital improvements on our 38 wholly owned hotels of \$11.8 million and \$3.2 million related to required escrow deposits of restricted cash, reduced by distributions of \$4.1 million from unconsolidated real estate entities. Net cash flows used by financing activities were \$34.4 million, comprised of \$0.2 million raised through our DRSPP, net borrowings on our senior unsecured revolving credit facility of \$0.7 million, principal payments or payoffs on mortgage debt of \$7.7 million, payments of deferred financing and offering costs of \$0.1 million, and distributions to shareholders of \$27.5 million.

In March 2016, we changed the monthly dividend and distribution from \$0.10 to \$0.11 per common share and LTIP unit. We declared total dividends of \$0.66 and \$0.64 per common share and LTIP unit for the six months ended June 30, 2017 and 2016, respectively.





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Liquidity and Capital Resources

At June 30, 2017, our leverage ratio was 38.8% 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. Over the past several years, we have maintained a leverage ratio between the mid-30s and the low 50s to fund our acquisitions and investments in joint ventures. At June 30, 2017, we have total debt of \$575.5 million at an average rate of approximately 4.6%. Accordingly, our debt coverage ratios are currently 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. We will pay down borrowings on our senior unsecured revolving credit facility with excess cash flow until we find other uses of cash such as investments in our existing hotels, hotel acquisitions or further joint venture investments. At June 30, 2017 and December 31, 2016, we had \$45.0 million and \$52.5 million, respectively, in outstanding borrowings under our senior unsecured revolving credit facility. At June 30, 2017, the maximum borrowing availability under the senior unsecured revolving credit facility was \$250.0 million. We also had mortgage debt on individual hotels aggregating \$530.5 million and \$532.6 million at June 30, 2017 and December 31, 2016, respectively.

Our senior unsecured credit facility contains representations, warranties, covenants, terms and conditions customary for transactions of this type, including a maximum leverage ratio, a minimum fixed charge coverage ratio and minimum net worth financial covenants, limitations on (i) liens, (ii) incurrence of debt, (iii) investments, (iv) distributions, and (v) mergers and asset dispositions, covenants to preserve corporate existence and comply with laws, covenants on the use of proceeds of the 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 June 30, 2017. We expect to meet all financial covenants during the remainder of 2017 based upon our current projections. 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 the encumbrance of any unencumbered hotels. We believe that our net cash provided by operations will be adequate to fund operating obligations, pay interest on any borrowings and fund dividends in accordance with the requirements for qualification as a REIT under the Code. We expect to meet our long-term liquidity requirements, such as hotel property acquisitions and debt maturities or repayments through additional long-term secured and unsecured borrowings, the issuance of additional equity or debt securities or the possible sale of existing assets.

Through our \$25 million DRSP, which was established in January 2014, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on our common shares. Shareholders may also make optional cash purchases of our common shares subject to certain limitations detailed in the prospectus for the DRSP. As of June 30, 2017, we had issued 211,131 shares under the DRSP at a weighted average price of \$20.27. As of June 30, 2017, there was approximately \$20.7 million available for issuance under the DRSP.

In January 2014, we also established our 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 of our common shares by means of ordinary brokers' transactions on the NYSE, in negotiated transactions or in transactions that are deemed to be "at-the-market" offerings as defined in Rule 415 under the Securities Act with Cantor Fitzgerald & Co. acting as sales agent pursuant to a Sales Agreement (the "Cantor Sales Agreement"). On January 13, 2015, the Company entered into a Sales Agreement (the "Barclays Sales Agreement") with Barclays Capital Inc. ("Barclays") to add Barclays as an additional sales agent under the Company's ATM Plan. Total shares issued under the ATM Plan since the inception of the plan are 1,528,745 at a weighted average price of \$22.22 raising net proceeds after sales commissions and fees of approximately \$34.0 million. As of June 30, 2017, there was approximately \$16.0 million available for issuance under the ATM Plan.

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.

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## Dividend Policy

Our current common share dividend policy is generally to distribute, annually, approximately 100% of our annual taxable income. The amount of any dividends is determined by our Board of Trustees. Our current monthly dividend and distribution rate is \$0.11 per common share and LTIP unit. The aggregate amount of dividends and distributions declared for the six months ended June 30, 2017 was \$0.66 per common share and LTIP unit.

## 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 franchisors' 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 franchisors' 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 requirements 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 three months ended June 30, 2017 and 2016, we invested approximately \$6.9 million and \$8.3 million, respectively, and for the six months ended June 30, 2017 and 2016, we invested approximately \$13.8 million and \$18.1 million, respectively, on capital investments in our hotels. We expect to invest an additional \$13.1 million on renovations, discretionary and emergency expenditures on our existing hotels for the remainder of 2017.

The Company is continuing with plans to expand two Residence Inns located in Sunnyvale, CA. The expansions are expected to include a new lobby and public spaces in each location. We are not certain when the expansions of the two Sunnyvale Residence Inns will commence. It is possible that one or both of these projects will commence in 2017, but the timing is uncertain due to potential delays related to finalizing plans, obtaining approvals from local authorities and ensuring costs to complete the expansions justify the investment. While we do not have final budgets for these projects, we currently anticipate that total expenditures will be approximately \$75 million to \$80 million, but these costs are subject to change.

## Contractual Obligations

The following table sets forth our contractual obligations as of June 30, 2017 and the effect these obligations are expected to have on our liquidity and cash flow in future periods (in thousands). We had no material off-balance sheet arrangements at June 30, 2017, other than non-recourse debt associated with the NewINK JV and the Inland JV as discussed below.

Contractual Obligations	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Corporate office lease (1)	\$7,751	\$ 380	\$ 1,564	\$ 1,644	\$ 4,163
Revolving credit facility, including interest (2)	52,463	1,097	4,388	46,978	—
Ground leases	75,039	608	2,437	2,540	69,454
Property loans, including interest (2)	672,453	14,692	61,690	80,484	515,587
Total	\$807,706	\$ 16,777	\$ 70,079	\$ 131,646	\$ 589,204

(1)

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The Company entered into a new 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 shares the space with related parties and is reimbursed for the pro-rata share of rentable space occupied by related parties.

Does not reflect paydowns or additional borrowings under the senior unsecured revolving credit facility after (2) June 30, 2017. Interest payments are based on the interest rate in effect as of June 30, 2017. See Note 7, "Debt" to our unaudited 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.

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The Company's ownership interests in the JVs are subject to change in the event that either we or CLNS 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. CLNS 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.

### 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.

### Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

### Recently Issued Accounting Standards

Refer to Note 3, Recently Issued Accounting Standards for all new recently issued accounting standards.

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## Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We may be exposed to interest rate changes primarily as a result of our assumption of long-term debt in connection with our acquisitions 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 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 June 30, 2017 and December 31, 2016 was \$537.9 million and \$516.0 million, respectively.

At June 30, 2017, 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 June 30, 2017 that are sensitive to changes in interest rates (dollars in thousands):

	2017	2018	2019	2020	2021	2022	Thereafter	Total/ Weighted Average	Fair Value
Floating rate:									
Debt	—	—	\$45,000	\$—	—	—	—	\$45,000	\$45,000
Average interest rate (1)	—	—	3.51 %	—	—	—	—	3.51 %	
Fixed rate:									
Debt	\$2,262	\$5,374	\$7,340	\$9,899	\$22,308	\$10,350	\$472,961	\$530,494	\$537,912
Average interest rate	4.76 %	4.69 %	4.68 %	4.67 %	5.25 %	4.62 %	4.62 %	4.65 %	

(1) Weighted average interest rate based on borrowings at LIBOR of 1.23% plus a margin of 1.95% and prime rate of 4.25% plus a margin of 0.95% at June 30, 2017.

We estimate that a hypothetical 100 basis points increase on the variable interest rate would result in additional interest expense of approximately \$0.5 million annually. This assumes that the amount outstanding under our floating rate debt remains \$45.0 million, the balance as of June 30, 2017.

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Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. 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. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company or its properties.

Item 1A. Risk Factors.

There have been no material changes in the risk factors described in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.





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Item 6. Exhibits.

The following exhibits are filed as part of this report:

Exhibit Number	Description of Exhibit
3.1	Articles of Amendment and Restatement of Chatham Lodging Trust <sup>(1)</sup>
3.2	Second Amended and Restated Bylaws of Chatham Lodging Trust <sup>(2)</sup>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Furnished herewith. Such certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

(1) Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the SEC on February 29, 2016 (File No. 001-34693).

(2) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 21, 2015 (File No. 001-34693).

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SIGNATURE

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

CHATHAM LODGING TRUST

Dated: August 2, 2017 By: /s/ JEREMY B. WEGNER

Jeremy B. Wegner

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer and duly authorized officer of the registrant)