

Chatham Lodging Trust
Form 10-Q
May 01, 2019

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Table of Contents

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 1934

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 001-34693

CHATHAM LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland **27-1200777**

(State or Other
Jurisdiction of
Incorporation
or
Organization) (I.R.S. Employer
Identification
No.)

222

**Lakeview
Avenue,
Suite 200**

**West Palm
Beach, 33401
Florida**

(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 every Interactive Data File required to be submitted 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 such files). Yes No

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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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

<u>Class</u>	<u>Outstanding at May 1, 2019</u>
Common Shares of Beneficial Interest (\$0.01 par value per share)	46,572,579

Table of Contents**TABLE OF CONTENTS**

	Page
<u>PART I.</u>	
<u>FINANCIAL</u>	
<u>INFORMATION</u>	
Item1.	<u>3</u>
	<u>3</u>
Item2.	<u>23</u>
	<u>23</u>
Item3.	<u>37</u>
	<u>37</u>
Item4.	<u>38</u>
	<u>38</u>
<u>PART II. OTHER</u>	
<u>INFORMATION</u>	
Item1.	<u>38</u>
Item1A.	<u>38</u>
Item2.	<u>38</u>
	<u>38</u>
Item3.	<u>38</u>
	<u>38</u>
Item4.	<u>38</u>
	<u>38</u>
Item5.	<u>38</u>
Item6.	<u>39</u>

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****CHATHAM LODGING TRUST****Consolidated Balance Sheets***(In thousands, except share and per share data)*

	March 31, 2019 (unaudited)	December 31, 2018
Assets:		
Investment in hotel properties, net	\$ 1,372,077	\$ 1,373,773
Cash and cash equivalents	11,199	7,192
Restricted cash	21,342	25,145
Investment in unconsolidated real estate entities	20,857	21,545
Right of use asset, net	22,936	—
Hotel receivables (net of allowance for doubtful accounts of \$281 and \$264, respectively)	5,221	4,495
Deferred costs, net	4,917	5,070
Prepaid expenses and other assets	5,504	2,431
Deferred tax asset, net	58	58
Total assets	\$ 1,464,111	\$ 1,439,709
Liabilities and Equity:		
Mortgage debt, net	\$ 500,568	\$ 501,782
Revolving credit facility	97,000	81,500
Accounts payable and accrued expenses	30,184	33,692

Distributions and losses in excess of investments of unconsolidated real estate entities	10,086	9,650
Lease Liability, net	25,623	—
Distributions payable	5,733	5,667
Total liabilities	669,194	632,291
Commitments and contingencies (Note 13)		
Equity:		
Shareholders' Equity:		
Preferred shares, \$0.01 par value, 100,000,000 shares authorized and unissued at March 31, 2019 and December 31, 2018	—	—
Common shares, \$0.01 par value, 500,000,000 shares authorized; 46,571,005 and 46,525,652 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	466	465
Additional paid-in capital	897,161	896,286
Retained earnings (distributions in excess of retained earnings)	(113,039)	(99,285)

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Total shareholders' equity	784,588		797,466
Noncontrolling Interests:			
Noncontrolling interest in Operating Partnership	10,329		9,952
Total equity	794,917		807,418
Total liabilities and equity	\$	1,464,111	\$ 1,439,709

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

3

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

	For the three months ended	
	March 31,	
	2019	2018
Revenue:		
Room	\$ 68,085	\$ 66,251
Food and beverage	2,427	2,098
Other	3,676	3,027
Cost reimbursements from unconsolidated real estate entities	1,491	1,539
Total revenue	75,679	72,915
Expenses:		
Hotel operating expenses:		
Room	15,570	14,553
Food and beverage	2,009	1,740
Telephone	433	459
Other hotel operating	939	721
General and administrative	6,167	6,033
Franchise and marketing fees	5,932	5,525
Advertising and promotions	1,533	1,565
Utilities	2,750	2,699
Repairs and maintenance	3,611	3,624
Management fees	2,544	2,437
Insurance	338	333
Total hotel operating expenses	41,826	39,689
Depreciation and amortization	12,772	12,036
Property taxes, ground rent and insurance	6,166	5,775
General and administrative	3,514	3,622
Other charges	17	(14)
Reimbursed costs from unconsolidated	1,491	1,539

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real estate entities			
Total operating expenses	65,786	62,647	
Operating income before loss on sale of hotel property	9,893	10,268	
Loss on sale of hotel property	—	(17)	
Operating Income	9,893	10,251	
Interest and other income	55	2	
Interest expense, including amortization of deferred fees	(7,197)	(6,631)	
Loss from unconsolidated real estate entities	(1,123)	(754)	
Income before income tax expense	1,628	2,868	
Income tax expense	—	—	
Net income	1,628	2,868	
Net income attributable to noncontrolling interests	(15)	(20)	
Net income attributable to common shareholders	\$ 1,613	\$ 2,848	
Income per Common Share - Basic:			
Net income attributable to common shareholders (Note 10)	\$ 0.03	\$ 0.06	
Income per Common Share - Diluted:			
Net income attributable to common shareholders (Note 10)	\$ 0.03	\$ 0.06	
Weighted average number of common shares outstanding:			
Basic	46,556,710	45,753,792	
Diluted	46,734,958	46,022,690	

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**Distributions
declared per
common share:**

\$	0.33	\$	0.33
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The accompanying notes are an integral part of these consolidated financial statements.

4

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

	Common Shares			Additional Paid - In Capital	Retained earnings (distributions in excess of retained earnings)	Total Shareholders' Equity	Noncontrolling Interest in Operating Partnership	Total Equity
	Share	Amount						
Balance, January 1, 2018	45,357	\$5,266,450	\$	871,730	\$ (69,018)	\$ 803,162	6,618	\$ 809,780
Issuance of shares pursuant to Equity Incentive Plan	21,670		500	—	500	—	500	
Issuance of shares, net of offering costs of \$225	472,064		10,273	—	10,282	—	10,282	
Issuance of restricted time-based shares	5,000		—	—	—	—	—	
Amortization of share based compensation	—		64	—	64	728	792	
Dividends declared on common shares (\$0.33 per share)	—		—	(15,141)	(15,141)	—	(15,141)	
Distributions declared on LTIP units (\$0.33 per unit)	—		—	—	—	(283)	(283)	
	—		19	—	19	(19)	—	

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Reallocation of noncontrolling interest							
Net income	—	—	—	2,848	2,848	20	2,868
Balance, March 31, 2018	45,870	4,600	459	\$ 882,586	\$ (81,311)	\$ 801,734	7,064 \$ 808,798
Balance, January 1, 2019	46,520	5,652	465	\$ 896,286	\$ (99,285)	\$ 797,466	9,952 \$ 807,418
Issuance of shares pursuant to Equity Incentive Plan	27,870		500	—	500	—	500
Issuance of shares, net of offering costs of \$26	17,483		92	—	93	—	93
Amortization of share based compensation	—	—	16	—	16	931	947
Dividends declared on common shares (\$0.33 per share)	—	—	—	(15,367)	(15,367)	—	(15,367)
Distributions declared on LTIP units (\$0.33 per unit)	—	—	—	—	—	(302)	(302)
Reallocation of noncontrolling interest	—	—	267	—	267	(267)	—
Net income	—	—	—	1,613	1,613	15	1,628

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Balance,
March 31, 2019 46,511,005 466 \$ 897,161 \$ (113,039) \$ 784,588 \$ 10,329 \$ 794,917

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

5

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

	For the three months ended	
	March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 1,628	\$ 2,868
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,710	11,978
Amortization of deferred franchise fees	62	58
Amortization of deferred financing fees included in interest expense	231	239
Share based compensation	1,059	918
Loss from unconsolidated real estate entities	1,123	754
Changes in assets and liabilities:		
Right of use assets	155	—
Hotel receivables	(723)	(1,244)
Deferred costs	—	(117)
Prepaid expenses and other assets	(3,082)	(3,041)
Accounts payable and accrued expenses	240	1,013
Lease liability	(92)	—
Net cash provided by operating activities	13,311	13,426
Cash flows from investing activities:		
Improvements and additions to hotel properties	(11,741)	(6,947)
Investment in unconsolidated real estate entities	—	1,019
Net cash used in investing activities	(11,741)	(5,928)
Cash flows from financing activities:		

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Borrowings on revolving credit facility	25,500	53,000	
Repayments on revolving credit facility	(10,000)	(51,000)	
Payments on mortgage debt	(1,308)	(1,227)	
Payment of financing costs	(48)	(931)	
Payment of offering costs	(26)	(255)	
Proceeds from issuance of common shares	119	10,537	
Distributions-common shares/units	(15,603)	(15,320)	
Net cash used in financing activities	(1,366)	(5,196)	
Net change in cash, cash equivalents and restricted cash	204	2,302	
Cash, cash equivalents and restricted cash, beginning of period	32,337	36,499	
Cash, cash equivalents and restricted cash, end of period	\$ 32,541	\$ 38,801	
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 6,789	\$ 6,195	
Cash paid for income taxes	\$ 8	\$ 2	

-continued-

6

Table of Contents

Supplemental disclosure of non-cash investing and financing information:

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

As of March 31, 2019, the Company had accrued distributions payable of \$5,733. These distributions were paid on April 26, 2019, except for \$535 related to accrued but unpaid distributions on unvested performance based shares and LTIP units. As of March 31, 2018, the Company had accrued distributions payable of \$5,950. These distributions were paid on April 27, 2018, except for \$839 related to accrued but unpaid distributions on unvested performance based shares.

Accrued share based compensation of \$113 and \$125 is included in accounts payable and accrued expenses as of March 31, 2019 and 2018, respectively.

Accrued capital improvements of \$1,671 and \$1,828 are included in accounts payable and accrued expenses as of March 31, 2019 and 2018, respectively.

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

7

Table of Contents

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 ("Prior ATM Plan") whereby, from time to time, we may publicly offer and sell our common shares having an aggregate maximum offering price of up to \$50 million by means of ordinary brokers' transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933. The Company filed a \$100 million registration statement for a new ATM program (the "ATM Plan" and together with the Prior ATM Plan, the "ATM Plans") on December 28, 2017 to replace the prior program. At the same time, the Company entered into sales agreements with Cantor Fitzgerald & Co. ("Cantor"), Barclays Capital Inc. ("Barclays"), Robert W. Baird & Co. Incorporated, ("Baird"), Citigroup Global Markets Inc. ("Citigroup"), Stifel, Nicolaus & Company, Incorporated ("Stifel") and Wells Fargo Securities, LLC ("Wells Fargo") as sales agents. During the three months ended March 31, 2019, we did not issue any shares under the ATM Plan. As of March 31, 2019, we had issued 2,498,670 shares under the ATM Plans at an average price of \$21.83. As of March 31, 2019, there was approximately \$92.4 million available for issuance under the ATM Plan.

In January 2014, the Company established a \$25 million dividend reinvestment and stock purchase plan (the "Prior DRSP"). We filed a new \$50 million shelf registration statement for the dividend reinvestment and stock purchase plan (the "New DRSP" and together with the Prior DRSP, the "DRSPs") on December 28, 2017 to replace the prior program. Under the DRSPs, 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 DRSPs. During the three months ended March 31, 2019, we issued 6,104 shares under the New DRSP at a weighted average price of \$19.48, which generated \$0.1 million of proceeds. As of March 31, 2019, we had issued 1,514,150 shares under the DRSPs at an average price of \$21.54. As of March 31, 2019, there was approximately \$33.0 million available for issuance under the New DRSP.

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 100.0% 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.

As of March 31, 2019, the Company wholly owned 42 hotels with an aggregate of 6,283 rooms located in 15 states and the District of Columbia. As of March 31, 2019, the Company also (i) held a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with affiliates of Colony Capital, Inc. ("CLNY"), which owns 47 hotels acquired from a joint venture (the "Innkeepers JV") between the Company and Cerberus Capital Management ("Cerberus"), comprising 6,098 rooms and (ii) held a 10.0% noncontrolling interest in a separate joint venture (the "Inland JV") with CLNY, which owns 48 hotels acquired from Inland American Real Estate Trust, Inc. ("Inland"), comprising an aggregate of 6,402 rooms. We sometimes use the term "JVs", which refers collectively to the NewINK JV and Inland JV.

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

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its 10.3% interest in the 47 NewINK JV hotels and (ii) owns its 10.0% interest in the 48 Inland JV hotels through the Operating Partnership. All of the NewINK JV hotels and Inland JV hotels are leased to TRS Lessees, in which the Company indirectly owns noncontrolling interests through its TRS holding company. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation.

8

Table of Contents

The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of March 31, 2019, Island Hospitality Management LLC (“IHM”), which is 51% owned by Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, managed all 42 of the Company's wholly owned hotels. As of March 31, 2019, all of the NewINK JV hotels were managed by IHM. As of March 31, 2019, 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, 2018, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Reclassifications

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

Use of Estimates

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

Recently Adopted Accounting Policies

2016-02 (“ASU 2016-02”), *Leases*, which relates to the accounting for leasing transactions. the FASB issued updated accounting guidance which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new accounting guidance requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on whether or not the lease is effectively a financed purchase by the lessee. The classification of the lease will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases. We have adopted

the new accounting guidance on January 1, 2019 and applied it based on the optional transition method provided for, which allows entities to recognize a cumulative-effect adjustment to the balance sheet on the adoption date. Upon adoption, we applied the package of practical expedients made available under the new accounting guidance and also make an accounting policy election to not recognize right-of-use assets or lease liabilities for leases with terms of 12 months or less. For our ground lease agreements and corporate office lease agreement, all of which are currently accounted for as operating leases, we are recognizing lease liabilities of \$25.7 million with corresponding right-of use assets

Table of Contents**3. Acquisition of Hotel Properties***Hotel Purchase Price Allocation*

We acquired the Residence Inn Summerville ("RI Summerville") hotel in Summerville, SC for \$20.8 million on August 27, 2018 and the Dallas Downtown Courtyard ("Dallas DT") hotel in Dallas, TX for \$49.0 million on December 5, 2018. The allocation of the purchase price of each hotel acquired by the Company in 2018, based on the fair value on the date of its acquisition, was (in thousands):

	RI Summerville	Dallas DT
Acquisition date	8/27/2018	12/5/2018
Number of Rooms	96	167
Land	\$ 2,300	\$ 2,900
Building and improvements	17,060	42,760
Furniture, fixtures and equipment	1,234	3,340
Cash	—	5
Accounts receivable	—	8
Prepaid expenses and other assets	—	68
Accounts payable and accrued expenses	(9)	(33)
Net assets acquired, net of cash	\$ 20,585	\$ 49,043

The value of the assets acquired was primarily based on a sales comparison approach (for land) and a depreciated replacement cost approach (for building and improvements and furniture, fixtures and equipment). The sales comparison approach uses inputs of recent land sales in the respective hotel markets. The depreciated replacement cost approach uses inputs of both direct and indirect replacement costs using a nationally recognized authority on replacement cost information as well as the age, square footage and number of rooms of the respective assets. Property acquisition costs of \$0.0 million and \$0.2 million, respectively were capitalized in 2019 and 2018.

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

	Acquisition Date	For the three months ended March 31,			
		2019	2018	2019	2018
		Revenue	Operating Income	Revenue	Operating Income
Residence Inn Summerville, SC	08/27/2018	\$ 800	\$ 254	\$ —	\$ —

Courtyard Dallas Downtown, TX	12/5/2018	\$ 2,001	\$	797	—	—
Total		\$ 2,801	\$	1,051	\$	— \$ —

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 \$0.3 million and \$0.3 million as of March 31, 2019 and December 31, 2018, respectively.

Table of Contents**5. Investment in Hotel Properties**

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

	March 31, 2019	December 31, 2018
Land and improvements	\$ 296,260	\$ 296,253
Building and improvements	1,222,728	1,214,780
Furniture, fixtures and equipment	78,237	73,411
Renovations in progress	23,594	25,370
	1,620,819	1,609,814
Less: accumulated depreciation	(248,742)	(236,041)
Investment in hotel properties, net	\$ 1,372,077	\$ 1,373,773

6. Investment in Unconsolidated Entities

On June 9, 2014, the Company acquired a 10.3% interest in the NewINK JV, a joint venture between affiliates of NorthStar Realty Finance Corp. ("NorthStar") and the Operating Partnership. The Company accounts for this investment under the equity method. NorthStar merged with Colony Capital, Inc. ("Colony") on January 10, 2017 to form a new company, CLNY, which owns a 89.7% interest in the NewINK JV. The value of NewINK JV assets and liabilities were adjusted to reflect estimated fair market value at the time Colony merged with NorthStar. As of March 31, 2019 and 2018, the Company's share of partners' capital in the NewINK JV was approximately \$46.7 million and \$50.6 million, respectively, and the total difference between the carrying amount of investment and the Company's share of partners' capital was approximately \$56.8 million and \$58.1 million, respectively, (for which the basis difference related to amortizing assets is being recognized over the life of the related assets as a basis difference adjustment). The Company serves as managing member of the NewINK JV. During the three months ended March 31, 2019 and 2018, the Company received cash distributions from the NewINK JV as follows (in thousands):

	For the three months ended	
	March 31,	
	2019	2018
Cash generated from other activities and excess cash	\$ —	\$ 719
Total	\$ —	\$ 719

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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, CLNY, which owns a 90% interest in the Inland JV. The value of Inland JV assets and liabilities were adjusted to reflect estimated fair market value at the time Colony merged with NorthStar. As of March 31, 2019 and 2018, the Company's share of partners' capital in the Inland JV was approximately \$31.5 million and \$34.4 million, respectively, and the total difference between the carrying amount of the investment and the Company's share of partners' capital was approximately \$10.6 million and \$10.9 million, respectively (for which the basis difference related to amortizing assets is being recognized over the life of the related assets as a basis difference adjustment). The Company serves as managing member of the Inland JV. During the three months ended March 31, 2019 and 2018, the Company received cash distributions from the Inland JV as follows (in thousands):

	For the three months ended	
	March 31,	
	2019	2018
Cash generated from other activities and excess cash	\$ —	\$ 300
Total	\$ —	\$ 300

Table of Contents

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

On June 9, 2017, the Inland JV refinanced the \$817.0 million loan collateralized by the 48 hotels with a new \$780.0 million loan.

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

The Company's investments in the NewINK JV and the Inland JV were \$(10.1) million and \$20.9 million, respectively, at March 31, 2019. The following table sets forth the combined components of net income, including the Company's share, related to all JVs for the three months ended March 31, 2019 and 2018 (in thousands):

	For the three months ended	
	March 31,	
	2019	2018
Revenue	\$ 112,120	\$ 110,174
Total hotel operating expenses	78,554	78,024
Operating income	\$ 33,566	\$ 32,150
Net income (loss) from continuing operations	\$ (15,019)	\$ (11,401)
Net income (loss)	\$ (15,019)	\$ (11,401)
Income (loss) allocable to the Company	\$ (1,522)	\$ (1,153)

Basis difference adjustment	399	399
Total income from unconsolidated real estate entities attributable to the Company	\$ (1,123)	\$ (754)

12

Table of Contents**7. Debt**

The Company's mortgage loans are collateralized by first-mortgage liens on certain of the Company's properties. The mortgage loans 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	3/31/19 Property Carrying Value	Balance Outstanding on Loan as of	
				March 31, 2019	December 31, 2018
Senior Unsecured Revolving Credit Facility (1)	4.76	March 8, 2022	\$ —	\$ 97,000	\$ 81,500
Residence Inn by Marriott New Rochelle, NY	5.75	September 1, 2021	18,186	13,254	13,361
Residence Inn by Marriott San Diego, CA	4.76	February 6, 2023	45,699	27,730	27,885
Homewood Suites by Hilton San Antonio, TX	4.79	February 6, 2023	30,799	15,827	15,916
Residence Inn by Marriott Vienna, VA	4.79	February 6, 2023	32,185	21,658	21,782
Courtyard by Marriott Houston, TX	4.79	May 6, 2023	31,821	17,871	17,976
Hyatt Place Pittsburgh, PA	4.75	July 6, 2023	35,583	21,870	21,989
Residence Inn by Marriott Bellevue, WA	4.77	December 6, 2023	65,413	44,470	44,680
Residence Inn by Marriott Garden Grove, CA	4.79	April 6, 2024	37,190	32,475	32,620

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Residence Inn by Marriott Silicon Valley I, CA	4.74	July 1, 2024	81,477	64,800	64,800
Residence Inn by Marriott Silicon Valley II, CA	4.74	July 1, 2024	81,663	70,700	70,700
Residence Inn by Marriott San Mateo, CA	4.74	July 1, 2024	62,871	48,600	48,600
Residence Inn by Marriott Mountain View, CA	4.74	July 6, 2024	54,882	37,900	37,900
SpringHill Suites by Marriott Savannah, GA	4.72	July 6, 2024	35,527	30,000	30,000
Hilton Garden Inn Marina del Rey, CA	4.78	July 6, 2024	40,193	21,248	21,355
Homewood Suites by Hilton Billerica, MA	4.72	December 6, 2024	14,646	15,896	15,965
Hampton Inn & Suites Houston Medical Center, TX	4.75	January 6, 2025	15,256	17,948	18,026
Total debt before unamortized debt issue costs			\$ 683,391	\$ 599,247	\$ 585,055
Unamortized mortgage debt issue costs				(1,679)	(1,773)
Total debt outstanding				\$ 597,568	\$ 583,282

(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 March 31, 2019 and December 31, 2018, the Company had \$97.0 million and \$81.5 million, respectively, of outstanding borrowings under its senior unsecured revolving credit facility. At March 31, 2019, the maximum borrowing availability under the senior unsecured revolving credit facility was \$250.0 million.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates. All of the Company's mortgage loans are fixed-rate. Rates take into consideration general market conditions, quality and estimated value of collateral and maturity of debt with similar credit terms and are classified within level 3 of the fair value hierarchy. The estimated fair value of the Company's fixed rate debt as of March 31, 2019 and December 31, 2018 was \$503.6 million and \$489.0 million, respectively.

The Company estimates the fair value of its variable rate debt by taking into account general market conditions and the estimated credit terms it could obtain for debt with similar maturity and is classified within level 3 of the fair value hierarchy. As of March 31, 2019, the Company's only variable rate debt is under its senior unsecured revolving credit facility. The estimated fair value of the Company's variable rate debt as of March 31, 2019 and December 31, 2018 was \$97.0 million and \$81.5 million, respectively.

13

Table of Contents

As of March 31, 2019, the Company was in compliance with all of its financial covenants. At March 31, 2019, the Company's consolidated fixed charge coverage ratio was and the credit facility covenant is 1.5. Future scheduled principal payments of debt obligations as of March 31, 2019, for the current year and each of the next four calendar years and thereafter are as follows (in thousands):

	Amount
2019	
(remaining nine months)	\$ 5,684
2020	9,536
2021	21,962
2022	106,954
2023	142,545
2024	296,658
Thereafter	15,908
Total debt before unamortized debt issue costs	\$ 599,247
Unamortized mortgage debt issue costs	(1,679)
Total debt outstanding	\$ 597,568

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	
	March 31,	
	2019	2018
Federal	\$ —	\$ —
State	—	—
Tax expense (benefit)	\$ —	\$ —

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 2019. As of March 31, 2019, the TRS continues to recognize a full valuation allowance equal to 100% of the gross deferred tax assets, with the exception of the AMT tax credit, 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.

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

14

Table of Contents**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 March 31, 2019 . The dividends and distributions were as follows:

	Record Date	Payment Date	Common share distribution amount	LTIP unit distribution amount
January	1/31/2019	2/22/2019	\$ 0.11	\$ 0.11
February	2/28/2019	3/29/2019	0.11	0.11
March	3/29/2019	4/26/2019	0.11	0.11
1st Quarter 2019			\$ 0.33	\$ 0.33
Total 2019			\$ 0.33	\$ 0.33

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 March 31,	
	2019	2018
Numerator:		
Net income attributable to common shareholders	\$ 1,613	\$ 2,848
Dividends paid on unvested shares and units	(85)	(63)
Net income attributable to common shareholders	\$ 1,528	\$ 2,785
Denominator:		
Weighted average number of common	46,556,710	45,753,792

shares - basic

Unvested shares	178,248		268,898
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Weighted average number of common shares - diluted	46,734,958		46,022,690
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**Basic income
per Common
Share:**

Net income attributable to common shareholders per \$	0.03	\$	0.06
weighted average basic common share			

**Diluted income
per Common
Share:**

Net income attributable to common shareholders per \$	0.03	\$	0.06
weighted average diluted common share			

Table of Contents**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 accrued and not paid until those shares or units vest. Certain awards may provide for accelerated vesting if there is a change in control. In January 2019 and 2018, the Company issued 27,870 and 21,670 common shares, respectively, to its independent trustees as compensation for services performed in 2018 and 2017, respectively. As of March 31, 2019, there were 1,372,659 common shares available for issuance under the Equity Incentive Plan.

Restricted Share Awards

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

A summary of the Company's restricted share awards for the three months ended March 31, 2019 and the year ended December 31, 2018 is as follows:

	Three Months Ended March 31, 2019		Year Ended December 31, 2018	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at beginning of the period	8,334	18.52	57,514	\$ 23.78
Granted	—	—	5,000	17.40
Vested	(1,620)	20	(30,084)	26.24
Forfeited	—	—	(24,096)	21.21
Non-vested at end of the period	6,664	18.10	8,334	\$ 18.52

As of March 31, 2019 and December 31, 2018, there were \$0.1 million and \$0.1 million, respectively, of unrecognized compensation costs related to restricted share awards. As of March 31, 2019, these costs were expected to be recognized over a weighted-average period of approximately 2.3 years. For the three months ended March 31, 2019 and 2018, the Company recognized approximately \$15.7 thousand and \$0.1 million, respectively, of expense related to the restricted share awards.

Table of Contents*Long-Term Incentive Plan Awards*

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

A summary of the Company's LTIP Unit awards for the three months ended March 31, 2019 and the year ended December 31, 2018 is as follows:

	Three Months Ended March 31, 2019			Year Ended December 31, 2018	
	Number of Units	Weighted-Average Grant Date Fair Value	Number of Units	Weighted-Average Grant Date Fair Value	
Non-vested at beginning of the period	476,898	17.73	482,056	\$	16.58
Granted	221,883	17.33	244,917		16.94
Vested	(99,915)	15.55	(67,275)		16.42
Forfeited	—	\$	(183,300)	\$	14.13
Non-vested at end of the period	598,820	18.30	476,398	\$	17.73

Outperformance Plan LTIP Awards

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

Time-Based LTIP Awards

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

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

Performance-Based LTIP Awards

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

Table of Contents

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

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

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

The Company estimated the aggregate compensation cost to be recognized over the service period determined as of the grant date under ASC 718, excluding the effect of estimated forfeitures, using 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 estimating the value of LTIP units included discounts for illiquidity; expectations for future dividends; risk free interest rates; stock price volatility; and economic environment and market conditions.

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

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

The Company recorded \$0.9 million and \$0.7 million in compensation expense related to the LTIP units for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019 and December 31, 2018, there was \$8.2 million and \$7.8 million, respectively, of total unrecognized compensation cost related to LTIP units. This cost is

expected to be recognized over approximately 2.2 years, which represents the weighted average remaining vesting period of the LTIP units.

12. Leases

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 \$8,400 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 \$40,300 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.

18

Table of Contents

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 2019 is approximately \$29,000 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 \$47,500 per month and a percentage rent payment less the minimum rent is due in arrears equal to 5% to 25% of gross income based on the type of income.

The Company entered into a corporate office lease in September 2015. The lease is for a term of 11 years and includes a 12-month rent abatement period and certain tenant improvement allowances. The Company has a renewal option of up to two successive terms of 5 years each. The Company shares the space with related parties and is reimbursed for the pro-rata share of rentable space occupied by the related parties.

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

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

The following tables include information regarding the Company's leases for which it is the lessee, for the three months ended March 31 2019 and as of period end:

Total Future Lease Payments ⁽¹⁾

Amount	
2019	
(remaining	1,550
months)	
2020	
2021	
2022	
2023	
2024	
Thereafter	
Total	85,249
Less:	
Im-	
interest	
Present	25,623
value	
of	

lease
liabilities

19

Table of Contents

(1) Total non-variable lease payments includes \$3.4 million related to options to extend lease terms that are reasonably certain of being exercised.

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

	Amount
2019	\$ 2,065
2020	2,132
2021	2,157
2022	2,182
2023	2,206
Thereafter	75,022
Total lease payments	\$ 85,764

For the three months ended March 31, 2019, the Company incurred \$0.5 million of fixed lease payment and \$39.0 thousand of variable lease payments, which are included in property taxes, ground rent and insurance in our consolidated statement of operations.

The following table includes information regarding the right of use assets and lease liabilities of the Company as of March 31, 2019:

	Right of Use Asset	Lease Liability
Balance as of January 1, 2019	\$ 23,091	\$ 25,715
Amortization	(155)	(92)
Balance as of March 31, 2019	\$ 22,936	\$ 25,623

Lease Term and Discount Rate **3/31/2019**

Weighted-average remaining lease term (years)	40.16
Weighted-average discount rate	6.57%

Table of Contents

13. Commitments and Contingencies

Litigation

The nature of the operations of the Company's hotels exposes those hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. IHM is currently a defendant in two class action lawsuits pending in the Santa Clara County Superior Court. The first class action lawsuit was filed on October 21, 2016 under the title Ruffy, et al, v. Island Hospitality Management, LLC, et al. Case No. 16-CV-301473 and the second class action lawsuit was filed on March 21, 2018 under the title Doonan, et al, v. Island Hospitality Management, LLC, et al. Case No. 18-CV-325187. The class actions relate to hotels operated by IHM in the state of California and owned by affiliates of the Company and the NewINK JV, and/or certain third parties. The complaints allege various wage and hour law violations based on alleged misclassification of certain hotel managerial staff and violation of certain California statutes regarding incorrect information contained on employee paystubs. The plaintiffs seek injunctive relief, money damages, penalties, and interest. None of the potential classes has been certified and we are defending our case vigorously. As of March 31, 2019, included in accounts payable is \$0.1 million which represents an estimate of the Company's total exposure to the litigation based on standard indemnification obligations under hotel management agreements with IHM.

Management Agreements

The management agreements with IHM have an initial term of five years and automatically renew for two five-year periods unless IHM provides written notice to us no later than 90 days prior to the then current term's expiration date of its 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.

Management fees totaled approximately \$2.5 million and \$2.4 million, respectively, for the three months ended March 31, 2019 and 2018, respectively.

Franchise Agreements

The fees associated with the franchise agreements are calculated as a specified percentage of the hotel's gross room revenue. Franchise and marketing fees totaled approximately \$5.9 million and \$5.5 million, respectively, for the three months ended March 31, 2019 and 2018. The initial term of the agreements range from 10 to 30 years with the weighted average expiration being September 2030.

14. Related Party Transactions

Mr. Fisher owns 51% of IHM. As of March 31, 2019, the Company had hotel management agreements with IHM to manage all 42 of its wholly owned hotels. As of March 31, 2019, 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 March 31, 2019 and 2018 were \$2.5 million and \$2.4 million, respectively. At March 31, 2019 and December 31, 2018, the amounts due to IHM were \$1.6 million and \$1.4 million, respectively. The Company provides services to an entity Castleblack Owner Holding, LLC ("Castleblack") which is 97.5% owned by affiliates of CLNY and 2.5% owned by Mr. Fisher. During the three months ended March 31, 2019 and 2018 the company provided services of \$32.8 thousand and zero, respectively.

Cost reimbursements from unconsolidated real estate entities revenue represent reimbursements of costs incurred on behalf of the NewINK JV, Inland JV and Castleblack. These costs relate primarily to corporate payroll costs at the NewINK JV, Inland JV and Castleblack where the Company is the employer and shared office expenses. As the Company records cost reimbursements based upon costs incurred with no added markup, the revenue and related

expense has no impact on the Company's operating income or net income. Cost reimbursements from the JVs are recorded based upon the occurrence of a reimbursed activity.

21

Table of Contents

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 March 31, 2019 and 2018 were \$2.0 million and \$1.8 million, respectively.

22

Table of Contents

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, 2018. 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, 2018 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®, SpringHill Suites by Marriott®, Hilton Garden Inn by Hilton®, Embassy Suites®, 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 Capital, Inc. ("CLNY") that owns 47 hotels (the "NewINK JV") or distributions from our 10.0% investment in a joint venture with CLNY 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.

At March 31, 2019, our leverage ratio was 35.1% measured as 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 March 31, 2019, we have total debt of \$599.2 million at an average interest rate of approximately 4.7%. 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.

23

Table of Contents

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”),
- EBITDA_{re},
- Adjusted EBITDA, and
- Adjusted Hotel EBITDA.

We evaluate the hotels in our portfolio and potential acquisitions using these metrics to determine each hotel’s contribution toward providing income to our shareholders through increases in distributable cash flow and increasing long-term total returns through appreciation in the value of our common shares. RevPAR, ADR and Occupancy are hotel industry measures commonly used to evaluate operating performance. 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, EBITDA_{re}, Adjusted EBITDA and Hotel EBITDA and a reconciliation of FFO, Adjusted FFO, EBITDA, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel EBITDA to net income or loss, measurements recognized by generally accepted accounting principles in the United States (“GAAP”).

Table of Contents

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 healthy. Lodging industry performance is also impacted by room supply growth, which is currently elevated in the Upscale segment in which most of our hotels operate. Overall U.S. room supply increased 2.0% in 2018, but supply in the Upscale segment increased by 5.2% in 2018. Smith Travel Research is projecting U.S. hotel supply growth to increase 1.9% in 2019. Continued supply growth could negatively impact RevPAR growth. We are currently projecting a 2019 RevPAR change of _____ as compared to 2018.

Comparison of the three months ended March 31, 2019 to the three months ended March 31, 2018

Results of operations for the three months ended March 31, 2019 include the operating activities of our 42 wholly owned hotels and our investments in the NewINK JV and Inland JV. We wholly owned 40 hotels at January 1, 2018. Accordingly, the comparisons below are influenced by the fact that we acquired one hotel in Summerville, SC on August 27, 2018 and one hotel in Dallas, TX on December 5, 2018.

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		
	March 31, 2019	March 31, 2018	% Change
Room	\$ 68,085	\$ 66,251	2.8%
Food and beverage	2,427	2,098	15%
Other	3,676	3,027	21%
Cost reimbursements from unconsolidated real estate entities	1,491	1,539	(3%)
Total revenue	\$ 75,679	\$ 72,915	3.8%

Total revenue was \$75.7 million for the quarter ended March 31, 2019, up \$2.8 million compared to total revenue of \$72.9 million for the corresponding 2018 period. Total revenue related to the two hotels acquired during 2018 contributed \$2.8 million of the increase. Since all of our hotels are select-service or limited-service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue comprised 90.0% and 90.9%, respectively, of total revenue for the quarters ended March 31, 2019 and 2018. Room revenue was \$68.1 million and \$66.3 million for the quarters ended March 31, 2019 and 2018, respectively, with \$2.4 million of the increase attributable to the hotels acquired in 2018. At the 40 comparable hotels owned by the Company throughout 2018, room revenue was down _____

Food and beverage revenue was \$2.4 million for the quarter ended March 31, 2019, up _____ compared to \$2.1 million for the corresponding 2018 period. Food and beverage revenue related to the hotels acquired in 2018 contributed \$0.1 million of the increase.

Other operating revenue, comprised of parking, meeting room, gift shop, in-room movie and other ancillary amenities revenue, was up \$0.7 million for the three months ended March 31, 2019. Other operating revenue was \$3.7 million and \$3.0 million for the quarters ended March 31, 2019 and 2018, respectively. The hotels acquired in 2018 contributed \$0.2 million of the increase.

Cost reimbursements from unconsolidated real estate entities, comprised of payroll costs at the JVs and an entity, Castleblack Owner Holding, LLC ("Castleblack"), which is 97.5% owned by affiliates of CLNY and 2.5% by Mr. Fisher, where the Company is the employer, were \$1.5 million and \$1.5 million for the three months ended March 31, 2019 and 2018, respectively. The costs reimbursements were offset by the reimbursed costs from unconsolidated real estate entities included in operating expenses.

25

Table of Contents

As reported by Smith Travel Research, industry RevPAR for the three months ended March 31, 2019 and 2018 increased 3.5%, respectively, in the 2019 and 2018 periods as compared to the respective prior periods. RevPAR at our 40 wholly owned comparable hotels decreased and decreased 2.4%, respectively, in the 2019 and 2018 periods as compared to the respective prior periods primarily due to lower growth in our specific markets.

In the table below, we present both actual and same property room revenue metrics. Actual Occupancy, ADR and RevPAR metrics reflect the performance of the hotels for the actual days such hotels were owned by the Company during the periods presented. Same property Occupancy, ADR, and RevPAR results for the 40 hotels wholly owned by the Company as of March 31, 2019 that have been in operation for a full year 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 March 31,						Percentage Change
	2019		2018				
	Same Property (40 hotels)	Actual (42 hotels)	Same Property (40 hotels)	Actual (40 hotels)	Same Property (40 hotels)	Actual (42/40 hotels)	
Occupancy	76.0%	75.8%	75.6%	75.6%	0%	0%	
ADR	\$ 159.33	\$ 158.92	\$ 161.74	\$ 161.74	(1%)	(1%)	
RevPAR	\$ 121.12	\$ 120.43	\$ 122.31	\$ 122.31	(1%)	(1%)	

Hotel Operating Expenses

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

	For the three months ended		
	March 31, 2019	March 31, 2018	% Change
Hotel operating expenses:			
Room	\$ 15,570	\$ 14,553	7%
Food and beverage	2,009	1,740	15%
Telephone	433	459	(5%)
Other	939	721	30%
General and administrative	6,167	6,033	2%
Franchise and marketing fees	5,932	5,525	7%
Advertising and promotions	1,533	1,565	(2%)
Utilities	2,750	2,699	1%
Repairs and maintenance	3,611	3,624	(0%)

Management fees	2,544	2,437	4%
Insurance	338	333	1%
Total hotel operating expenses	\$ 41,826	\$ 39,689	5%

26

Table of Contents

Hotel operating expenses increased or 5.4% to \$41.8 million for the three months ended March 31, 2019 from \$39.7 million for the three months ended March 31, 2018. The two hotels acquired in 2018 contributed \$1.4 million of the increase and the balance of the increase was at the 40 comparable hotels primarily due to increasing labor and benefit costs and miscellaneous room expense.

Room expenses, which are the most significant component of hotel operating expenses, increased \$1.0 million or 7.0% from \$14.6 million in 2018 to \$15.6 million in the first quarter of 2019. The increase due to the two hotels acquired in 2018 was \$0.4 million and the increase at the 40 comparable hotels owned by us throughout 2018 primarily due to increasing

The remaining hotel operating expenses increased \$1.2 million, from \$25.1 million in the first quarter of 2018 to \$26.3 million in the first quarter of 2019. The increase due to the two hotels acquired in 2018 was \$1.0 million.

Depreciation and Amortization

Depreciation and amortization expense increased from \$12.0 million for the three months ended March 31, 2018 to \$12.8 million for the three months ended March 31, 2019. Depreciation related to the two hotels acquired in 2018 contributed \$0.6 million of the increase. 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 \$0.4 million from \$5.8 million for the three months ended March 31, 2018 to \$6.2 million for the three months ended March 31, 2019. The the two hotels that were acquired in 2018 contributed \$0.3 million of the increase in real estate taxes.

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 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 \$1.1 million and \$0.9 million for the three months ended March 31, 2019 and 2018, respectively) decreased \$0.3 million to \$2.4 million for the three months ended March 31, 2019 from \$2.7 million in the three months ended March 31, 2018 with the decrease primarily due to professional fees, travel and office expenses.

Other Charges

Other charges increased from an income of \$14.0 thousand for the three months ended March 31, 2018 to an expense of \$17.0 thousand for the three months ended March 31, 2019. Other charges primarily include costs related to a settlement claim in 2018 and an insurance charge in 2019.

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, Castleblack, which is 97.5% owned by affiliates of CLNY and 2.5% by Mr. Fisher, where

the Company is the employer, were \$1.5 million and \$1.5 million for the three months ended March 31, 2019 and 2018, respectively. The cost reimbursements were offset by the cost reimbursements from unconsolidated real estate entities included in revenues.

Interest and Other Income

Interest on cash and cash equivalents and other income increased \$53 thousand from \$2 thousand for the three months ended March 31, 2018 to \$55 thousand for the three months ended March 31, 2019. The increase is primarily related to fees received for services provided to an entity, Castleblack, which is 97.5% owned by CLNY.

27

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

Interest expense increased \$0.6 million from \$6.6 million for the three months ended March 31, 2018 to \$7.2 million for the three months ended March 31, 2019 and is comprised of the following (dollars in thousands):

	For the three months ended		
	March 31, 2019	March 31, 2018	% Change
Mortgage debt interest	\$ 5,860	\$ 5,917	(1%)
Credit facility interest and unused fees	1104	472	133.9
Amortization of deferred financing costs	233	242	(3%)
Total	\$ 7,197	\$ 6,631	8.2%

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

Loss from Unconsolidated Real Estate Entities

Loss from unconsolidated real estate entities was \$0.8 million for the three months ended March 31, 2018 and \$1.1 million for the three months ended March 31, 2019. The increase is due primarily to an increase in interest related to the floating rate debt at each JV.

Income Tax Expense

Income tax expense for the three months ended March 31, 2019 and 2018 was \$0.0 million and \$0.0 million, respectively. We are subject to income taxes based on the taxable income of our TRS Lessees at a combined federal and state tax rate of approximately 25%. The Company's TRS is expecting taxable losses in 2019 and recognizes a valuation allowance against its deferred tax assets.

Net Income

Net income was \$1.6 million for the three months ended March 31, 2019, compared to net income of \$2.9 million for the three months ended March 31, 2018. 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, 2018.

Table of Contents

Non-GAAP Financial Measures

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

FFO, Adjusted FFO, EBITDA, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel EBITDA do not represent cash generated from operating activities under GAAP and should not be considered as alternatives to net income or loss, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO, Adjusted FFO, EBITDA, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel EBITDA are not measures of our liquidity, nor are FFO, Adjusted FFO, EBITDA, EBITDA_{re}, Adjusted EBITDA 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, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions, and other commitments and uncertainties.

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

Table of Contents

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

	<i>For the three months ended</i>	
	March 31,	
	2019	2018
Funds From Operations ("FFO"):		
Net income	\$ 1,628	\$ 2,868
Loss on sale of hotel property	—	17
Depreciation	12,710	11,978
Adjustments for unconsolidated real estate entity items	1,818	1,678
FFO attributable to common share and unit holders	16,156	16,541
Other charges	17	(14)
Adjustments for unconsolidated real estate entity items	—	12
Adjusted FFO attributable to common share and unit holders	\$ 16,173	\$ 16,539
Weighted average number of common shares and units		
Basic	46,966,901	46,085,461
Diluted	47,145,149	46,354,359

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

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is defined as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sales of assets; (3) depreciation and amortization; and (4) unconsolidated real estate entity items including interest, depreciation and amortization excluding gains and losses from sales of real estate. We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by

removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions.

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

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

30

Table of Contents

The following is a reconciliation of net income to EBITDA, EBITDA_{re} and Adjusted EBITDA for the three months ended March 31, 2019 and 2018 (in thousands):

	<i>For the three months ended</i>	
	March 31,	
	2019	2018
Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”):		
Net income	\$ 1,628	\$ 2,868
Interest expense	7,197	6,631
Depreciation and amortization	12,772	12,036
Adjustments for unconsolidated real estate entity items	4,355	3,908
EBITDA	25,952	25,443
Loss on sale of hotel property	—	17
EBITDA _{re}	25,952	25,460
Other charges	17	(14)
Adjustments for unconsolidated real estate entity items	—	(11)
Share based compensation	\$ 1,059	\$ 918
Adjusted EBITDA	27,028	26,353

31

Table of Contents

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

The following is a presentation of Adjusted Hotel EBITDA for the three months ended March 31, 2019 and 2018 (in thousands):

	<i>For the three months ended</i>	
	March 31,	
	2019	2018
Net Income	\$ 1,628	\$ 2,868
Add: Interest expense	7,197	6,631
Depreciation and amortization	12,772	12,036
Corporate general and administrative	3,514	3,622
Other charges	17	—
Loss from unconsolidated real estate entities	1,123	754
Loss on sale of hotel property	—	17
Less: Interest and other income	(55)	(2)
Other charges	—	(14)
Adjusted Hotel EBITDA	\$ 26,196	\$ 25,912

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

- FFO, Adjusted FFO, EBITDA, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- FFO, Adjusted FFO, EBITDA, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- FFO, Adjusted FFO, EBITDA, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect funds available to make cash distributions;
- EBITDA, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may need to be replaced in the future, and FFO, Adjusted FFO, EBITDA, EBITDA_{re}, Adjusted EBITDA and Adjusted Hotel

EBITDA do not reflect any cash requirements for such replacements;

- Non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period using Adjusted EBITDA;

- Adjusted FFO, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect the impact of certain cash charges (including acquisition transaction costs) that result from matters we consider not to be indicative of the underlying performance of our hotel properties; and

- Other companies in our industry may calculate FFO, Adjusted FFO, EBITDA, EBITDAre, Adjusted EBITDA and Adjusted Hotel EBITDA differently than we do, limiting their usefulness as a comparative measure.

32

Table of Contents

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

Sources and Uses of Cash

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

As of March 31, 2019 and December 31, 2018, we had cash, cash equivalents and restricted cash of approximately \$32.5 million and \$32.3 million, respectively. Additionally, we had \$153.0 million available under our \$250.0 million senior unsecured revolving credit facility as of March 31, 2019.

For the three months ended March 31, 2019,

For the three months ended March 31, 2018, net cash flows provided by operations were \$13.4 million, driven by net income of \$2.9 million, \$13.9 million of non-cash items, including \$12.3 million of depreciation and amortization, \$0.9 million of share-based compensation expense and \$0.7 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 \$3.4 million. Net cash flows used in investing activities were \$5.9 million, primarily related to capital improvements on our 40 wholly owned hotels of \$6.9 million, offset by distributions of \$1.0 million from unconsolidated real estate entities. Net cash flows used in financing activities were \$5.2 million, comprised of \$10.5 million of common equity proceeds raised through sales under our DRSP, net borrowings of our senior unsecured revolving credit facility of \$2.0 million, offset by principal payments or payoffs on mortgage debt of \$1.2 million, payments of financing and offering costs of \$1.2 million, and distributions to shareholders of \$15.3 million.

We declared total dividends of \$0.33 and \$0.33 per common share and LTIP unit for the three months ended March 31, 2019 and 2018, respectively.

Table of Contents

Liquidity and Capital Resources

At March 31, 2019, our leverage ratio was approximately 35.1% measured as 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 March 31, 2019, we have total debt of \$599.2 million at an average interest rate of approximately 4.7%. 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. Our debt may include mortgage debt collateralized by our hotel properties and unsecured debt.

At March 31, 2019 and December 31, 2018, we had \$97.0 million and \$81.5 million, respectively, in outstanding borrowings under our senior unsecured revolving credit facility. At March 31, 2019, the maximum borrowing availability under the senior unsecured revolving credit facility was \$250.0 million. We also had mortgage debt on individual hotels aggregating \$502.2 million and \$507.2 million at March 31, 2019 and December 31, 2018, respectively.

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

On March 8, 2018, we refinanced our senior unsecured credit facility with a new facility having a maturity date in March 2023, which includes the option to extend the maturity by an additional year, and replaces our previous \$250 million senior unsecured credit facility that was scheduled to mature in 2020. Borrowing costs have been reduced by 10 to 15 basis points from comparable leverage-based pricing levels in our previous credit facility. At March 31, 2019 current leverage level, the borrowing cost under the new facility is LIBOR plus 1.65%. We were in compliance with all financial covenants at March 31, 2019. We expect to meet all financial covenants during the remainder of 2019 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 encumbrance of any unencumbered hotels. We believe that our net cash provided by operations will be adequate to fund operating obligations, pay interest on any borrowings and fund dividends in accordance with the requirements for qualification as a REIT under the Code. We expect to meet our long-term liquidity requirements, such as hotel property acquisitions and debt maturities or repayments through additional long-term secured and unsecured borrowings, the issuance of additional equity or debt securities or the possible sale of existing assets.

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

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 three months ended March 31, 2019 was \$0.33 per common share and LTIP unit.

Table of Contents**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 March 31, 2019 and 2018, we invested approximately _____ and \$6.9 million, respectively, on capital investments in our hotels. We expect to invest an additional _____ on renovations, discretionary and emergency expenditures on our existing hotels for the remainder of 2019, including improvements required under any brand PIP.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at March 31, 2019, other than non-recourse debt associated with the NewINK JV and the Inland JV. 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 JVs indebtedness in connection with certain customary non-recourse carve-out provisions such as environmental conditions, misuse of funds and material misrepresentations.

Contractual Obligations

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

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)	\$ 6,401	\$ 595	\$ 1,643	\$ 1,727	\$ 2,436
Revolving credit facility, including interest (2)	111,162	4,370	8,969	97,823	—
Ground leases	78,848	955	2,646	2,661	72,586
Property loans, including interest (2)	596,360	23,455	78,109	174,647	320,149

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Total \$ 792,771 \$ 29,375 \$ 91,367 \$ 276,858 \$ 395,171

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

3.Does not reflect paydowns or additional borrowings under the senior unsecured revolving credit facility after March 31, 2019. Interest payments are based on the interest rate in effect as of March 31, 2019. 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.

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

35

Table of Contents

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 JVs 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, 2018.

Recently Issued Accounting Standards

Refer to Note 2, Summary of Significant Accounting Policies for all new recently issued accounting standards.

Table of Contents**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 will assess interest rate risk by identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates. Rates take into consideration general market conditions, maturity and fair value of the underlying collateral. The estimated fair value of the Company's fixed rate debt at March 31, 2019 and December 31, 2018 was \$503.6 million and \$489.0 million, respectively.

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

	2019	2020	2021	2022	2023	2024	Thereafter	Total/ Weighted Average	Fair Value
Floating rate:									
Debt	—	—	—	\$97,000	—	—	—	\$ 97,000	\$ 97,000
Average interest rate (1)	—	—	—	4.56%	—	—	—	4.56 %	
Fixed rate:									
Debt	\$5,684	\$9,536	\$21,962	\$ 9,954	\$ 142,545	\$ 296,658	\$15,908	\$ 502,247	\$ 503,579
Average interest rate	4.69	4.68	5.26	4.63 %	4.66%	4.64%	4.25	4.66 %	

(1) Weighted average interest rate based on borrowings at LIBOR of 2.50% plus a margin of 1.65% and prime rate of 5.5% plus a margin of 0.65% at March 31, 2019.

We estimate that a hypothetical 100 basis points increase on the variable interest rate would result in additional interest expense of approximately \$1.0 million annually. This assumes that the amount outstanding under our floating rate debt remains \$97.0 million, the balance as of March 31, 2019.

Table of Contents

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. IHM is currently a defendant in two class action lawsuits pending in the Santa Clara County Superior Court. The first class action lawsuit was filed on October 21, 2016 under the title Ruffy, et al, v. Island Hospitality Management, LLC, et al. Case No. 16-CV-301473 and the second class action lawsuit was filed on March 21, 2018 under the title Doonan, et al, v. Island Hospitality Management, LLC, et al. Case No. 18-CV-325187. The class actions relate to hotels operated by IHM in the state of California and owned by affiliates of the Company and the NewINK JV, and/or certain third parties. The complaints allege various wage and hour law violations based on alleged misclassification of certain hotel managerial staff and violation of certain California statutes regarding incorrect information contained on employee paystubs. The plaintiffs seek injunctive relief, money damages, penalties, and interest. None of the potential classes has been certified and we are defending our case vigorously. As of March 31, 2019, included in accounts payable is \$0.1 million which represents an estimate of the Company's total exposure to the litigation based on standard indemnification obligations under hotel management agreements with IHM.

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, 2018.

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.

38

Table of Contents**Item 6. Exhibits.**

The following exhibits are filed as part of this report:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
<u>3.1</u>	Articles of Amendment and Restatement of Chatham Lodging Trust ⁽¹⁾
<u>3.2</u>	Second Amended and Restated Bylaws of Chatham Lodging Trust ⁽²⁾
<u>31.1</u>	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 Section302 of the Sarbanes-Oxley Act of 2002
<u>31.2</u>	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 Section302 of the Sarbanes-Oxley Act of 2002
<u>32.1*</u>	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section906 of the Sarbanes-Oxley Act of 2002

101.INS

The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL 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).

Incorporated
by reference
to Exhibit 3.2
to the
Company's
Current

(2) Report on
Form 8-K
filed with the
SEC on April
21, 2015 (File
No.
001-34693).

Table of Contents

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: May 1,
2019

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)