

Chatham Lodging Trust
Form 10-Q
November 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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)

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Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

50 Coconut Row, Suite 216

Palm Beach, Florida
(Address of Principal Executive Offices)

(561) 802-4477

(Registrant's Telephone Number, Including Area Code)

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

33480
(Zip Code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

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

| Class | Outstanding at November 7, 2012 |
|---|---------------------------------|
| Common Shares of Beneficial Interest (\$0.01 par value per share) | 13,908,907 |

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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)*

| | September 30, 2012 (unaudited) | December 31, 2011 |
|--|--------------------------------------|----------------------|
| Assets: | | |
| Investment in hotel properties, net | \$ 396,666 | \$ 402,815 |
| Cash and cash equivalents | 5,744 | 4,680 |
| Restricted cash | 2,598 | 5,299 |
| Investment in unconsolidated real estate entities | 15,052 | 36,003 |
| Hotel receivables (net of allowance for doubtful accounts of \$22 and \$17, respectively) | 1,866 | 2,057 |
| Deferred costs, net | 5,186 | 6,350 |
| Prepaid expenses and other assets | 3,298 | 1,502 |
| Total assets | \$ 430,410 | \$ 458,706 |
| Liabilities and Equity: | | |
| Debt | \$ 160,213 | \$ 161,440 |
| Revolving credit facility | 48,500 | 67,500 |
| Accounts payable and accrued expenses | 7,434 | 10,184 |
| Distributions payable | 2,864 | 2,464 |
| Total liabilities | 219,011 | 241,588 |
| Commitments and contingencies | | |
| Equity: | | |
| Shareholders' Equity: | | |
| Preferred shares, \$0.01 par value, 100,000,000 shares authorized and unissued at September 30, 2012 and December 31, 2011 | | |
| Common shares, \$0.01 par value, 500,000,000 shares authorized; 13,909,822 and 13,908,907 shares issued and outstanding, respectively at September 30, 2012 and 13,820,854 and 13,819,939 shares issued and outstanding, respectively at December 31, 2011 | | |
| | 137 | 137 |
| Additional paid-in capital | 240,118 | 239,173 |
| Accumulated deficit | (30,323) | (23,220) |
| Total shareholders' equity | 209,932 | 216,090 |
| Noncontrolling Interests: | | |
| Noncontrolling Interest in Operating Partnership | 1,467 | 1,028 |
| Total equity | 211,399 | 217,118 |
| Total liabilities and equity | \$ 430,410 | \$ 458,706 |

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

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

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|-----------------|--|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue: | | | | |
| Room | \$ 25,337 | \$ 22,660 | \$ 71,778 | \$ 49,288 |
| Other operating | 1,255 | 918 | 3,250 | 1,679 |
| Cost reimbursements from unconsolidated real estate entities | 410 | | 1,160 | |
| Total revenue | 27,002 | 23,578 | 76,188 | 50,967 |
| Expenses: | | | | |
| Hotel operating expenses: | | | | |
| Room | 5,462 | 4,653 | 15,726 | 10,865 |
| Other operating | 8,885 | 8,185 | 25,468 | 18,215 |
| Total hotel operating expenses | 14,347 | 12,838 | 41,194 | 29,080 |
| Depreciation and amortization | 3,399 | 3,399 | 10,861 | 8,647 |
| Property taxes and insurance | 1,918 | 1,623 | 5,174 | 3,723 |
| General and administrative | 1,676 | 1,427 | 5,400 | 4,280 |
| Hotel property acquisition costs | 24 | 2,104 | 108 | 3,587 |
| Reimbursed costs from unconsolidated real estate entities | 410 | | 1,160 | |
| Total operating expenses | 21,774 | 21,391 | 63,897 | 49,317 |
| Operating income | 5,228 | 2,187 | 12,291 | 1,650 |
| Interest and other income | 53 | 6 | 54 | 18 |
| Interest expense, including amortization of deferred fees | (3,627) | (3,087) | (11,303) | (4,503) |
| Loss from unconsolidated real estate entities | (195) | | (57) | |
| Income (loss) before income tax expense | 1,459 | (894) | 985 | (2,835) |
| Income tax benefit (expense) | 39 | (61) | (61) | (75) |
| Net income (loss) | \$ 1,498 | \$ (955) | \$ 924 | \$ (2,910) |
| Loss per Common Share - Basic: | | | | |
| Net income (loss) attributable to common shareholders (Note 11) | \$ 0.10 | \$ (0.07) | \$ 0.05 | \$ (0.22) |
| Loss per Common Share - Diluted: | | | | |
| Net income (loss) attributable to common shareholders (Note 11) | \$ 0.10 | \$ (0.07) | \$ 0.05 | \$ (0.22) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 13,819,371 | 13,766,297 | 13,808,172 | 13,115,439 |
| Diluted | 13,908,907 | 13,766,297 | 13,896,486 | 13,115,439 |

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| | | | | | | | | |
|---------------------------------------|----|------|----|-------|----|-------|----|-------|
| Distributions per common share | \$ | 0.20 | \$ | 0.175 | \$ | 0.575 | \$ | 0.525 |
|---------------------------------------|----|------|----|-------|----|-------|----|-------|

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

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

| | Common Shares | | Additional | Accumulated | Total | Noncontrolling | Total |
|---|---------------|--------|------------|-------------|--------------|----------------|------------|
| | Shares | Amount | Paid-In | Deficit | Shareholders | Interest in | Equity |
| | | | Capital | | Equity | Operating | |
| | | | | | | Partnership | |
| | | | | | | | Equity |
| Balance, January 1, 2011 | 9,208,750 | \$ 91 | \$ 169,089 | \$ (4,441) | \$ 164,739 | \$ 425 | \$ 165,164 |
| Issuance of shares pursuant to Equity Incentive Plan | 12,104 | | 210 | | 210 | | 210 |
| Issuance of shares, net of offering costs of \$4,153 | 4,600,000 | 46 | 69,401 | | 69,447 | | 69,447 |
| Repurchase of vested common shares | (915) | | (15) | | (15) | | (15) |
| Amortization of share based compensation | | | 366 | | 366 | 587 | 953 |
| Dividends declared on common shares (\$0.525 per share) | | | | (7,255) | (7,255) | | (7,255) |
| Distributions declared on LTIP units (\$0.525 per unit) | | | | | | (135) | (135) |
| Net loss | | | | (2,910) | (2,910) | | (2,910) |
| Balance, September 30, 2011 | 13,819,939 | \$ 137 | \$ 239,051 | \$ (14,606) | \$ 224,582 | \$ 877 | \$ 225,459 |
| Balance, January 1, 2012 | 13,819,939 | \$ 137 | \$ 239,173 | \$ (23,220) | \$ 216,090 | \$ 1,028 | \$ 217,118 |
| Issuance of shares pursuant to Equity Incentive Plan | 27,592 | | 300 | | 300 | | 300 |
| Issuance of restricted time-based shares | 61,376 | | | | | | |
| Amortization of share based compensation | | | 645 | | 645 | 586 | 1,231 |
| Dividends declared on common shares (\$0.575 per share) | | | | (8,027) | (8,027) | | (8,027) |
| Distributions declared on LTIP units (\$0.575 per unit) | | | | | | (147) | (147) |
| Net income | | | | 924 | 924 | | 924 |
| Balance, September 30, 2012 | 13,908,907 | \$ 137 | \$ 240,118 | \$ (30,323) | \$ 209,932 | \$ 1,467 | \$ 211,399 |

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

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

| | For the nine months ended September 30, | |
|--|--|-------------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 924 | \$ (2,910) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 10,805 | 8,604 |
| Amortization of deferred franchise fees | 56 | 43 |
| Amortization of deferred fees included in interest expense | 1,483 | 1,113 |
| Share based compensation | 1,484 | 1,178 |
| Loss from unconsolidated real estate entities | 57 | |
| Changes in assets and liabilities: | | |
| Hotel receivables | 191 | (1,109) |
| Deferred costs | 39 | (153) |
| Prepaid expenses and other assets | (1,796) | (1,283) |
| Accounts payable and accrued expenses | (2,825) | 2,878 |
| Net cash provided by operating activities | 10,418 | 8,361 |
| Cash flows from investing activities: | | |
| Improvements and additions to hotel properties | (4,534) | (9,639) |
| Acquisition of hotel properties, net of cash acquired | | (61,981) |
| Distributions from unconsolidated entities | 20,894 | |
| Restricted cash | 2,701 | (3,363) |
| Net cash provided by (used in) investing activities | 19,061 | (74,983) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of long-term debt | | 15,800 |
| Borrowings on revolving credit facility | 6,500 | 89,000 |
| Repayments on revolving credit facility | (25,500) | (95,800) |
| Payments on debt | (1,227) | (347) |
| Payment of financing costs | (259) | (1,498) |
| Payment of offering costs | (155) | (4,153) |
| Proceeds from issuance of common shares | | 73,600 |
| In-substance repurchase of vested common shares | | (15) |
| Distributions-common shares/units | (7,774) | (6,583) |
| Net cash (used in) provided by financing activities | (28,415) | 70,004 |
| Net change in cash and cash equivalents | 1,064 | 3,382 |
| Cash and cash equivalents, beginning of period | 4,680 | 4,768 |
| Cash and cash equivalents, end of period | \$ 5,744 | \$ 8,150 |

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Supplemental disclosure of cash flow information:

| | | |
|----------------------------|----------|----------|
| Cash paid for interest | \$ 9,745 | \$ 2,455 |
| Cash paid for income taxes | \$ 220 | \$ 24 |

Supplemental disclosure of non-cash investing and financing information:

The Company has accrued distributions payable of \$2,864. These distributions were paid on October 26, 2012 except for \$31 related to accrued but unpaid distributions. See Note 12.

On January 6, 2012, the Company issued 27,592 shares to its independent Trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2011. Accrued share based compensation of \$300 was included in Accounts payable and accrued expenses as of December 31, 2011.

Accrued share based compensation of \$253 and capital improvements of \$122 are included in Accounts payable and accrued expenses as of September 30, 2012.

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

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CHATHAM LODGING TRUST

Notes to the Consolidated Financial Statements

(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 was organized to invest primarily in premium-branded upscale extended-stay and select-service hotels.

The Company completed its initial public offering (the IPO) on April 21, 2010. The IPO resulted in the sale of 8,625,000 common shares at \$20.00 per share, generating \$172.5 million in gross proceeds. Net proceeds, after underwriters' discounts and commissions and other offering costs, were approximately \$158.7 million. Concurrently with the closing of the IPO, in a separate private placement pursuant to Regulation D under the Securities Act of 1933, as amended (the Securities Act), the Company sold 500,000 of its common shares to Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, at the public offering price of \$20.00 per share, for proceeds of \$10.0 million. On February 8, 2011, the Company completed a follow-on common share offering generating gross proceeds of \$73.6 million and net proceeds of approximately \$69.4 million, adding capital to the Company's balance sheet.

The Company had no operations prior to the consummation of the IPO. Following the closing of the IPO, the Company contributed the net proceeds from the IPO and the concurrent private placement, as well as the net proceeds of our February 2011 offering, to Chatham Lodging, L.P. (the Operating Partnership) in exchange for partnership interests in the Operating Partnership. Substantially all assets are held by, and all of the Company's operations are conducted through, the Operating Partnership. Chatham Lodging Trust is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership. Certain of our executive officers hold vested and unvested long-term incentive plan (LTIP) units in the Operating Partnership, which are presented as noncontrolling interests on the consolidated balance sheets.

As of September 30, 2012, the Company owned 18 hotels with an aggregate of 2,414 rooms and held a 10.3% minority interest in a joint venture (the JV) with Cerberus Capital Management (Cerberus), which owns 56 hotels with an aggregate of 7,394 rooms. To qualify as a REIT, the Company cannot operate the hotels. Therefore, the Operating Partnership and its subsidiaries lease our wholly owned hotels to taxable REIT subsidiary lessees (TRS Lessees), which are wholly owned by one of the Company's taxable REIT subsidiary (TRS) holding companies. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is five years. Lease revenue from each TRS Lessee is eliminated in consolidation. The TRS Lessees have entered into management agreements with third party management companies that provide day-to-day management for the hotels. The Company indirectly owns interest in 51 of the 56 JV hotels through the Operating Partnership, and the Company's interest in the remaining 5 JV hotels is through one of the TRS holding companies. All of the JV hotels are leased to TRS Lessees in which the Company indirectly owns a 10.3% interest through one of the TRS holding companies. Island Hospitality Management Inc. (IHM), which is 90% owned by Mr. Fisher, manages 16 of the wholly owned hotels and Concord Hospitality Enterprises Company manages two wholly owned hotels. All but one of the JV hotels are managed by IHM. One JV hotel is managed by Dimension Development Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and in conformity with the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim financial information. These unaudited consolidated financial statements, in the opinion of management, include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations, consolidated statements of equity, and consolidated 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 US GAAP, and the related notes thereto as of December 31, 2011, which are

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included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Table of Contents*Use of Estimates*

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

3. Recently Issued Accounting Standards

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 created a uniform framework for applying fair value measurement principles for companies around the world and clarified existing guidance in U.S. GAAP. ASU 2011-04 is effective for the first reporting annual period beginning after December 15, 2011. The Company adopted this standard and it did not have any material effect on the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive income. This update is intended to increase the prominence of other comprehensive income in the financial statements by requiring public companies to present comprehensive income either as a single statement detailing the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income or using a two statement approach including both a statement of income and a statement of comprehensive income. The option to present other comprehensive income in the statement of changes in equity has been eliminated. The amendments in this update are effective for public companies for fiscal years, and interim periods beginning after December 15, 2011. Currently, the Company has no items of other comprehensive income in any periods presented.

4. Acquisition of Hotel Properties*Acquisition of Hotel Properties*

No acquisitions were completed during the nine months ended September 30, 2012. The Company incurred acquisition costs of \$0.02 million and \$0.1 million, respectively, during the three and nine months ended September 30, 2012 and \$2.1 million and \$3.6 million, respectively, during the three and nine months ended September 30, 2011.

Pro Forma Financial Information

The following condensed pro forma financial information presents the results of operations as if the acquisitions of the hotels acquired in 2011 had taken place on January 1, 2011. The pro forma results have been prepared for comparative purposes only, include results for periods prior to the Company's ownership and are not necessarily indicative of what actual results of operations would have been had the acquisitions taken place on January 1, 2011, nor do they purport to represent the results of operations for future periods (in thousands, except share and per share data).

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|--|---|------------|--|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Pro forma total revenue | \$ 27,002 | \$ 24,987 | \$ 76,188 | \$ 69,176 |
| Pro forma net income (loss) | \$ 1,498 | \$ (432) | \$ 924 | \$ (3,132) |
| Pro forma income (loss) per share: | | | | |
| Basic and diluted | \$ 0.11 | \$ (0.03) | \$ 0.07 | \$ (0.23) |
| Weighted average Common Shares Outstanding | | | | |
| Basic and diluted | 13,819,939 | 13,819,939 | 13,819,939 | 13,819,939 |

5. 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 \$22 thousand and \$17 thousand as of September 30, 2012 and December 31, 2011, respectively.

Table of Contents**6. Investment in Hotel Properties**

Investment in hotel properties as of September 30, 2012 and December 31, 2011, consisted of the following (in thousands):

| | September 30, 2012 | December 31, 2011 |
|--|--------------------|-------------------|
| Land and improvements | \$ 59,113 | \$ 60,064 |
| Building and improvements | 337,130 | 332,399 |
| Furniture, fixtures and equipment | 20,240 | 17,469 |
| Renovations in progress | 978 | 3,897 |
| | 417,461 | 413,829 |
| Less accumulated depreciation | (20,795) | (11,014) |
| Investment in hotel properties, net | \$ 396,666 | \$ 402,815 |

At the end of the first quarter, there was a fire at the Company's White Plains hotel. The hotel was insured and coverage has been accepted by the carrier. No casualty losses are expected as the hotel was insured.

7. Investment in Unconsolidated Entities

On October 27, 2011, the Company acquired a 10.3% interest in the JV with Cerberus. The JV initially acquired 64 properties for a total purchase price of approximately \$1.02 billion, including assumption of approximately \$675 million of mortgage debt secured by 45 of the hotels with a weighted average interest rate of 6.71% and maturing in 2017. The Company's original investment of \$37 million in the JV was funded through borrowings under the Company's secured revolving credit facility. The Company accounts for this investment under the equity method. During the three and nine months ended, September 30, 2012, the Company received cash distributions from the JV of \$1.0 million and \$4.0 million, respectively, relating to cash flow generated by the JV; and \$0.0 million and \$11.7 million net proceeds, respectively, from mortgage financing by the JV. The Company received cash distributions from the JV's sale of 8 hotels to 3 parties during the three and nine months ended September 30, 2012 of \$0.7 million and \$5.1 million, respectively.

The Company's ownership interest in the JV is subject to change in the event that either Chatham or Cerberus calls for additional capital contributions to the JV necessary for the conduct of business, including contributions to fund costs and expenses related to capital expenditures. The Company manages the JV and will receive a promote interest if the JV meets certain return thresholds. Cerberus may also approve certain actions by the JV without the Company's consent, including certain property dispositions conducted at arm's length, certain actions related to the restructuring of the JV and removal of the Company as managing member in the event the Company fails to fulfill its material obligations under the joint venture agreement.

The JV incurred \$12.3 million and \$36.8 million in depreciation expense and \$0.0 million and \$0.4 million of acquisition costs during the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2012, the JV realized a net loss of \$1.8 million on the sale of three hotels and a net gain of \$4.7 million on the sale of 8 hotels, respectively. The following table sets forth the components of net loss, including the Company's share, related to the JV for the three and nine months ended September 30, 2012 (in thousands):

| | For the three months ended | For the nine months ended |
|--------------------------|----------------------------|---------------------------|
| | September 30, 2012 | September 30, 2012 |
| Revenue | \$ 71,607 | \$ 207,598 |
| Total operating expenses | 40,713 | 120,561 |
| Operating income | \$ 30,894 | \$ 87,037 |
| Net loss | \$ (1,899) | \$ (556) |
| | \$ (195) | \$ (57) |

**Chatham's 10.3% interest of net loss reported as Loss from
unconsolidated real estate entities**

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The Company's mortgage loans and its senior secured revolving credit facility are collateralized by a first-mortgage lien on the underlying properties. The mortgages are non-recourse except for instances of fraud or misapplication of funds. Mortgage debt consisted of the following (in thousands):

| Collateral | Interest Rate | Maturity Date | 09/30/12 Property Carrying Value | Balance Outstanding as of | |
|--|---------------|-------------------|---|---------------------------|-------------------|
| | | | | September 30, 2012 | December 31, 2011 |
| Senior Secured Revolving Credit Facility | 5.50% | October 10, 2013 | \$ 165,878 | \$ 48,500 | \$ 67,500 |
| Courtyard by Marriott Altoona, PA | 5.96% | April 1, 2016 | 11,299 | 6,618 | 6,753 |
| SpringHill Suites by Marriott Washington, PA | 5.84% | April 1, 2015 | 12,381 | 5,144 | 5,260 |
| Residence Inn by Marriott New Rochelle, NY | 5.75% | September 1, 2021 | 20,469 | 15,523 | 15,731 |
| Residence Inn by Marriott Garden Grove, CA | 5.98% | November 1, 2016 | 41,628 | 32,417 | 32,417 |
| Residence Inn by Marriott San Diego, CA | 5.98% | November 1, 2016 | 49,732 | 39,679 | 39,986 |
| Homewood Suites by Hilton San Antonio, TX | 6.03% | October 1, 2016 | 31,046 | 18,240 | 18,380 |
| Doubletree Suites by Hilton Washington, DC | 6.03% | October 1, 2016 | 28,248 | 19,813 | 19,960 |
| Residence Inn by Marriott Vienna, VA | 6.03% | October 1, 2016 | 35,007 | 22,779 | 22,953 |
| | | | \$ 395,688 | \$ 208,713 | \$ 228,940 |

In May 2011, the Company amended its \$85 million senior secured revolving credit facility. The amendment increases the allowable consolidated leverage ratio to 60 percent through 2012, reducing to 55 percent in 2013; and decreased the consolidated fixed charge coverage ratio from 2.3x to 1.7x through March 2012, increasing to 1.75x through December 2012 and 2.0x in 2013. Subject to certain conditions, including lender approval, the credit facility has an accordion feature that provides the Company with the ability to increase the aggregate principal amount of the facility.

The Company further amended its senior secured revolving credit facility on November 5, 2012. The November 2012 amendment extends the maturity date to November 5, 2015 and includes an option to extend the maturity date by an additional year. Certain other terms have been amended as noted in Note 15, "Subsequent Events" to the financial statements.

The Company expects to meet all financial covenants under the revolving credit facility based on current projections.

At September 30, 2012 and December 31, 2011, the Company had \$48.5 million and \$67.5 million, respectively, of outstanding borrowings under its secured revolving credit facility. Ten properties in the borrowing base secure borrowings under the credit facility at September 30, 2012. At September 30, 2012, the maximum borrowing availability under the revolving credit facility was \$78.7 million.

The Company estimates the fair value of its fixed rate debt using an income approach valuation method by discounting the future cash flows of each instrument at estimated market rates. 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. Level 3 typically consists of mortgages because of the significance of the collateral value to the value of the loan. The estimated fair value of the Company's fixed rate debt as of September 30, 2012 and December 31, 2011 was \$169.2 million and \$159.4 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. The Company's only variable rate debt is under its senior secured revolving credit facility. The estimated fair value of the Company's variable rate debt as of September 30, 2012 and December 31, 2011 was \$48.5 million and \$67.5 million, respectively.

As of September 30, 2012, the Company was in compliance with all of its financial covenants. Future scheduled principal payments of debt obligations as of September 30, 2012, for the remainder of 2012 and for each of the next four calendar years and thereafter are as follows (in thousands):

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| | Amount |
|-------------------------------|------------|
| 2012 (remaining three months) | \$ 463 |
| 2013 | 50,481 |
| 2014 | 2,106 |
| 2015 | 6,785 |
| 2016 | 134,737 |
| Thereafter | 14,141 |
| | \$ 208,713 |

Table of Contents**9. Income Taxes**

The Company's TRSs are subject to federal and state income taxes. The Company's TRSs are structured under one of two TRS holding companies that are treated separately for income tax purposes (TRS 1 and TRS 2).

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

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|------------------------------|---|-----------|--|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Federal | \$ (23) | 49 | \$ 67 | 62 |
| State | (16) | 12 | (6) | 13 |
| Tax expense (benefit) | \$ (39) | 61 | \$ 61 | 75 |

At December 31, 2011, TRS 1 recorded a valuation allowance equal to 100% of the gross deferred tax asset due to the uncertainty of realizing the benefit of its deferred assets due to the limited operating history and the cumulative taxable losses incurred by TRS 1 during 2010 and 2011 and projected for 2012. At September 30, 2012, TRS 1 had a valuation allowance of \$0.2 million. No valuation allowance has been recorded in connection with TRS 2 for September 30, 2012. Management continues to monitor the need for a valuation allowance on a quarterly basis.

10. Dividends Declared and Paid

The Company declared common share dividends of \$0.20 per share and distributions on LTIP units of \$0.20 per unit for the three months ended September 30, 2012. The dividends and distributions were paid on October 26, 2012 to common shareholders and LTIP unit holders of record on September 28, 2012. The Company paid dividends declared for the first and second quarters of 2012 on April 27, 2012 and July 27, 2012, respectively.

11. Earnings Per Share

The two class method is used to determine earnings per share because unvested restricted shares and unvested long-term incentive plan units are considered to be participating shares. The following is a reconciliation of the amounts used in calculating basic and diluted net income (loss) per share (in thousands, except share and per share data):

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|------------|--|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income (loss) | \$ 1,498 | \$ (955) | \$ 924 | \$ (2,910) |
| Dividends paid on unvested shares | (165) | (9) | (203) | (32) |
| Net income (loss) attributable to common shareholders | \$ 1,333 | \$ (964) | \$ 721 | \$ (2,942) |
| Denominator: | | | | |
| Weighted average number of common shares - basic | 13,819,371 | 13,766,297 | 13,808,172 | 13,115,439 |
| Effect of dilutive securities: | | | | |
| Unvested shares (1) | 89,536 | | 88,314 | |
| Weighted average number of common shares - diluted | 13,908,907 | 13,766,297 | 13,896,486 | 13,115,439 |

Basic Earnings per Common Share:

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| | | | | | | | | |
|---|----|------|----|--------|----|------|----|--------|
| Net income (loss) attributable to common shareholders per weighted average common share | \$ | 0.10 | \$ | (0.07) | \$ | 0.05 | \$ | (0.22) |
|---|----|------|----|--------|----|------|----|--------|

Diluted Earnings per Common Share:

| | | | | | | | | |
|---|----|------|----|--------|----|------|----|--------|
| Net income (loss) attributable to common shareholders per weighted average common share | \$ | 0.10 | \$ | (0.07) | \$ | 0.05 | \$ | (0.22) |
|---|----|------|----|--------|----|------|----|--------|

- (1) Unvested restricted shares and unvested long-term incentive plan units that could potentially dilute basic earnings per share in the future were not included in the computation of diluted earnings (loss) per share, for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented.

Table of Contents**12. Equity Incentive Plan**

The Company maintains its Equity Incentive Plan to attract and retain independent trustees, executive officers and other key employees and service providers. The plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. Share awards under this plan generally vest over three to five years, though compensation for the Company's independent trustees includes shares granted that vest immediately. The Company pays dividends on unvested shares and units. Certain awards may provide for accelerated vesting if there is a change in control. In January 2012 and 2011, the Company issued 27,592 and 12,104 common shares, respectively, to its independent trustees as compensation for services performed in 2011 and 2010. A portion of the Company's share-based compensation to the Company's trustees for the year ending December 31, 2012 will be distributed in January 2013 in the form of common shares. The number of shares will be calculated based on the average of the closing prices for the Company's common shares on the New York Stock Exchange for the last ten trading days preceding the reporting date. The Company would have distributed 17,830 common shares had this liability classified award been satisfied as of September 30, 2012.

Restricted Share Awards

On February 23, 2012, the Company granted 114,567 restricted common shares to the Company's executive officers pursuant to the Equity Incentive Plan, consisting of time-based awards of 61,376 shares that will vest over a three-year period and 53,191 shares granted as performance-based equity. The performance-based shares will be issued and vest over a three-year period only if and to the extent that long-term performance criteria established by the Board of Trustees, (the Board), are met and the recipient remains employed by the Company on the vesting date. Included in the 61,376 grant of time-based share awards are 8,184 share grants made to certain senior executives not subject to employment agreements. As of September 30, 2012, there were 69,571 common shares available for issuance under the Equity Incentive Plan.

The Company measures compensation expense for time-based vesting restricted share awards based upon the fair market value of its common shares at the date of grant. For the performance-based shares, compensation expense is based on a valuation of \$10.20 per performance share granted, which takes into account that some or all of the awards may not vest if long-term performance criteria are not met during the vesting period. Compensation expense is recognized on a straight-line basis over the vesting period and is included in general and administrative expense in the accompanying consolidated statements of operations. The Company pays dividends on nonvested restricted shares. Dividends for performance-based shares are accrued and paid annually only if and to the extent that long-term performance criteria established by the Board are met and the recipient remains employed by the Company.

A summary of the Company's restricted share awards for the nine months ended September 30, 2012 and year ended December 31, 2011 is as follows:

| | 2012 | | 2011 | |
|--------------------------------------|------------------|--|------------------|--|
| | Number of Shares | Weighted - Average Grant Date Fair Value | Number of Shares | Weighted - Average Grant Date Fair Value |
| Nonvested at beginning of the period | 51,029 | \$ 19.04 | 76,550 | \$ 19.04 |
| Granted | 114,567 | 11.28 | | |
| Vested | (25,519) | 19.31 | (25,521) | 19.04 |
| Nonvested at end of the period | 140,077 | \$ 12.70 | 51,029 | \$ 19.04 |

As of September 30, 2012 and December 31, 2011, there were \$1.3 million and \$0.7 million, respectively, of unrecognized compensation costs related to restricted share awards. As of September 30, 2012, these costs were expected to be recognized over a weighted average period of approximately 1.4 years. For the three months ended September 30, 2012 and 2011, the Company recognized approximately \$0.3 million and \$0.1 million, respectively, and for the nine months ended September 30, 2012 and 2011, the Company recognized approximately \$0.7 million and \$0.4 million respectively, in expense related to the restricted share awards. This expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

Long-Term Incentive Plan Units

The Company recorded \$0.2 million and \$0.2 million in compensation expense related to the LTIP Units for the three months ended September 30, 2012 and 2011, respectively, and \$0.6 million and \$0.6 million in compensation expense related to the LTIP Units for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012 and December 31, 2011, there was \$2.0 million and \$2.6

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million, respectively, of total unrecognized compensation cost related to LTIP Units. This cost is expected to be recognized over approximately 2.6 years, which represents the weighted average remaining vesting period of the LTIP Units. As of September 30, 2012, none of the LTIP Units had reached parity.

Table of Contents**13. Commitments and Contingencies***Litigation*

The nature of the operations of the hotels exposes the hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company or its properties.

Hotel Ground Rent

The Altoona hotel is subject to a ground lease with an expiration date of April 30, 2029 with an extension option 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 equal to approximately \$7,000 per month when monthly occupancy is less than 85% and can increase up to approximately \$20,000 per month if occupancy is 100%, with minimum rent increased on an annual basis by two and one-half percent (2.5%).

At the New Rochelle Residence Inn, there is 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 fund for the cost of capital repairs.

The following is a schedule of the minimum future obligation payments required under the ground leases as of September 30, 2012, for the remainder of 2012 and for each of the next four calendar years and thereafter (in thousands):

| | Amount |
|-------------------------------|------------------|
| 2012 (remaining three months) | \$ 51 |
| 2013 | 205 |
| 2014 | 207 |
| 2015 | 210 |
| 2016 | 212 |
| Thereafter | 11,660 |
| Total | \$ 12,545 |

Management Agreements

The Company's hotels are operated under various management agreements that call for base management fees, which generally range from 2-4% of the hotel's gross room revenue and generally have an incentive fee provision, if certain financial thresholds are met or exceeded, of 10% of the hotel's net operating income less fixed costs, base management fees and a specified return threshold. The management agreements have initial terms from 5 to 15 years and generally have renewal options. The agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels, and may be terminated by the manager in the event we undergo a change in control. Management fees are recorded within hotel other operating expenses on the consolidated statements of operations and totaled approximately \$0.7 million and \$0.7 million, respectively, for the three months ended September 30, 2012 and 2011 and approximately \$2.0 million and \$1.4 million, respectively, for the nine months ended September 30, 2012 and 2011.

Franchise Agreements

The Company's hotels operate under various franchise agreements to operate the hotels under specific brands. Typically, our franchise agreements provide for a royalty fee of 4-5.5% of the hotel's gross room revenue and a program fee of 2-4% of the hotel's gross room revenue. The franchise agreements have initial terms of 10-20 years and generally have no renewal options. Franchise fees are recorded within hotel other operating expenses on the consolidated statements of operations and totaled approximately \$2.0 million and \$1.8 million, respectively, for the three months ended September 30, 2012 and 2011 and approximately \$5.7 million and \$3.9 million, respectively, for the nine months ended September 30, 2012 and 2011.

Table of Contents**14. Related Party Transactions**

Mr. Fisher owns 90% of IHM. The Company has hotel management agreements with IHM to manage 16 of its hotels in 2012, increased from agreements to manage ten of the Company's wholly-owned hotels in 2011. Of the 56 hotels owned by the JV, 55 are managed by IHM. Management and accounting fees paid by the Company to IHM for the three months ended September 30, 2012 and 2011 were \$0.9 million and \$0.5 million, respectively, and for the nine months ended September 30, 2012 and 2011 were \$1.9 million and \$0.9 million, respectively. At September 30, 2012 and December 31, 2011, the amounts due to IHM were \$0.4 and \$0.3 million, respectively.

Cost reimbursements from unconsolidated real estate entities revenue represents reimbursements of costs incurred on behalf of the JV. These costs relate primarily to payroll costs at the JV where the Company is the employer. As the Company records costs 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 our joint venture are recorded based upon the occurrence of a reimbursed activity.

15. Subsequent Events

On November 5, 2012, the Company completed an amendment to its senior secured revolving credit facility. The amendment extends the maturity date to November 5, 2015 and includes an option to extend the maturity date by an additional year. Other key terms amended were as follows:

| | Original Terms | Amended Terms |
|-------------------------------------|---|--|
| Facility amount | \$85 million | \$95 million |
| Accordion feature | Additional \$25 million | Additional \$20 million |
| LIBOR floor | 1.25% | None |
| Interest rate applicable margin | 325-425 basis points, based on leverage ratio | 200-300 basis points, based on leverage ratio |
| Unused fee | 50 basis points | 25 basis points if less than 50% unused, 35 basis points if more than 50% unused |
| Minimum fixed charge coverage ratio | 1.75-2.0x | 1.5x |

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2011. In this report, we used the terms "the Company," "we" or "our" to refer to Chatham Lodging Trust and its 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, 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 the forward-looking statements are based upon reasonable assumptions, our actual results could differ materially from those set forth in the forward-looking statements. Some factors that might cause such a difference include the following: the 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 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, 2011, as updated elsewhere in this report.

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 premium-branded upscale extended-stay and 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®, Doubletree Suites by Hilton®, Residence Inn by Marriott®, Hyatt® Summerfield Suites, Courtyard by Marriott®, Hampton Inn® and Hampton Inn and Suites®.

We focus on premium-branded, select-service hotels in high growth markets with high barriers to entry concentrated primarily in the 25 largest metropolitan markets in the United States.

Our long-term goal is to maintain our leverage at a ratio of net debt to investment in hotels (at cost) at less than 35 percent. However, during what we believe are the early stages of the lodging cycle recovery, we and our Board of Trustees are comfortable at levels in excess of that amount.

Future growth through acquisitions will be funded by issuances of both common and preferred shares, draw-downs under our available credit facility, the incurrence or assumption of individually secured hotel debt or, potentially, proceeds from dispositions of assets or distributions from the JV.

We believe 2012 and beyond will offer attractive growth for the industry and for us. We intend to acquire quality assets at attractive prices, improve their returns through knowledgeable asset management and seasoned, proven hotel management while remaining prudently leveraged.

We elected to qualify for treatment as a real estate investment trust ("REIT") for federal income tax purposes. In order to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), we cannot operate our hotels. Therefore, our operating partnership, Chatham Lodging, L.P. (the "Operating Partnership"), and its subsidiaries lease our hotel properties to taxable REIT lessee subsidiaries ("TRS Lessees"), who will in turn engage eligible independent contractors to manage the hotels. Each of these 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.

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Financial Condition and Operating Performance Metrics

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

Revenue Per Available Room (RevPAR),

Average Daily Rate (ADR),

Occupancy percentage,

Funds From Operations (FFO),

Adjusted FFO,

Earnings before interest, taxes, depreciation and amortization (EBITDA), and

Adjusted EBITDA.

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

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

Results of Operations

Industry outlook

We believe that the hotel industry's performance is correlated to the performance of the economy overall, and with key economic indicators such as GDP growth, employment trends and corporate profits. We expect a continuing improvement in the performance of the hotel industry. As reported by Smith Travel Research, monthly industry RevPAR has been higher year over year since March 2010. As reported by Smith Travel Research, industry RevPAR in 2011 was up 8.3% and was up 6.9% year to date through September 30, 2012. Industry analysts such as Smith Travel Research and PKF Hospitality are projecting industry RevPAR to grow 4-7% in 2012 based on sustained economic growth, lack of new supply and increased business travel spending. Of the 4-7% projected growth, most expect ADR growth to comprise approximately two-thirds of the expected RevPAR growth. We are currently projecting RevPAR at our hotels to grow 6-8% in 2012 with ADR comprising approximately half of our RevPAR growth. Industry analysts and other public lodging companies have begun to refine their RevPar projections for 2013. All expect RevPar to continue to grow in 2013, albeit at levels less than what the industry experienced in 2011 and 2012. We expect ADR increases to comprise a majority of the RevPar increases for the remainder of 2012 and to continue to do so in 2013.

Comparison of the Three Months Ended September 30, 2012 (2012) to the Three Months Ended September 30, 2011 (2011)

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Results of operations for the three months ended September 30, 2012 include the operating activities of our 18 wholly-owned hotels and our investment in the JV. We owned 18 hotels at September 30, 2011, but not for all of the three months ended as five hotels (the 5 Sisters) we acquired from Innkeepers USA Trust (Innkeepers) were acquired on July 14, 2011. Accordingly, the comparisons below are influenced by the fact that the 18 hotel portfolio was not owned for all of the third quarter of 2011.

As reported by Smith Travel Research, industry RevPAR for the three months ended September 30, 2012 and 2011 was up 5.1% and up 7.9%, for the comparative 3 months in the prior year, respectively. RevPAR at our hotels was up 5.8% and 5.4% in the 2012 and 2011 periods. Approximately two-thirds of our RevPAR growth in the 2012 third quarter was attributable to occupancy.

Revenues

Total revenue was \$27.0 million for the quarter ended September 30, 2012 compared to total revenue of \$23.6 million for the 2011 period. Since all of our hotels are select service or limited service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue was \$25.3 and \$22.6 million for the quarters ended September 30, 2012 and 2011, respectively. ADR at our hotels was up 3.6% as well as increased occupancy of 2.2% for the quarter.

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Since room revenue is the primary component of total revenue, our revenue results are dependent on maintaining and improving hotel occupancy, ADR and RevPAR at our hotels. Occupancy, ADR, and RevPAR results are presented in the following table in each period to reflect operation of the hotels regardless of ownership:

| | For the three months ended September 30, 2012 | For the three months ended September 30, 2011 |
|-----------|--|--|
| Occupancy | 86.2% | 84.4% |
| ADR | \$ 132.29 | \$ 127.72 |
| RevPar | \$ 114.09 | \$ 107.83 |

Other operating revenue, comprised of meeting room, gift shop, in-room movie and other ancillary amenities revenue, was \$1.3 and \$0.9 million for the quarters ended September 30, 2012 and 2011, respectively. As a percentage of total revenue, other operating revenue was 4.6% and 3.9% for the quarters ended September 30, 2012 and 2011.

Cost reimbursements from unconsolidated real estate entities, comprised of payroll costs at the JV where the Company is the employer, was \$0.4 million and \$0.0 million for the quarters ended September 30, 2012 and 2011, respectively.

Hotel Operating Expenses

Hotel operating expenses increased \$1.5 million to \$14.3 million for the three months ended September 30, 2012 compared to \$12.8 million for the three months ended September 30, 2011. As a percentage of total revenue, hotel operating expenses were 53% for 2012 and 54% for 2011, which decrease is expected as ADR grows year over year. Room expenses, which are the most significant component of hotel operating expenses, increased \$0.9 million from \$4.6 million in 2011 to \$5.5 million in 2012 or 19.7% and 20.2% of total revenue for the three months ended September 30, 2011 and 2012, respectively. Other direct expenses, which include management and franchise fees, insurance, utilities, repairs and maintenance, advertising and sales, and hotel general and administrative expenses increased \$0.7 million from \$8.2 million in 2011 to \$8.9 million in 2012.

Depreciation and Amortization

Depreciation and amortization expense remained unchanged at \$3.4 million for the three months ended September 30, 2011 and September 30, 2012. Depreciation is recorded on our hotel buildings over 40 years from the date of acquisition. Depreciable lives of hotel furniture, fixtures and equipment are generally three to ten years between the date of acquisition and the date that the furniture, fixtures and equipment will be replaced. Amortization of franchise fees is recorded on a straight line basis over the term of the respective franchise agreement.

Personal Property Taxes and Insurance

Total property tax and insurance expenses increased \$0.3 million from \$1.6 million for the three months ended September 30, 2011 to \$1.9 million for the three months ended September 30, 2012. The increase is due to increased tax assessments in 2012 at the Bloomington, Brentwood and Tyson's Corner Hotels.

Corporate General and Administrative

Corporate general and administrative expenses principally consist of employee-related costs, including base payroll and amortization of restricted stock and awards of long-term incentive plan (LTIP) units. These expenses also include corporate operating costs, professional fees and trustees' fees. Total corporate general and administrative expenses (excluding amortization of stock based compensation of \$0.5 and \$0.4 million for the three months ended September 30, 2012 and 2011, respectively) increased \$0.2 million to \$1.2 million in 2012 from \$1.0 million in 2011.

Hotel Property Acquisition Costs

Hotel property acquisition costs decreased \$2.08 million from \$2.1 million for the three months ended September 30, 2011 to \$0.02 million for the three months ended September 30, 2012. Expenses during the 2011 period related to our acquisition of the 5 Sisters from Innkeepers during the 2011 third quarter as well as acquisition costs related to our investment in the JV and the JV's initial acquisition of 64 hotels described in Note 7, Investment in Unconsolidated Entities, in the notes to our financial statements above. Acquisition-related costs are expensed when incurred.

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Reimbursed Costs from Unconsolidated Real Estate Entities

Reimbursed costs from unconsolidated real estate entities, comprised of payroll costs at the JV where the Company is the employer, were \$0.4 million and \$0.0 million for the quarters ended September 30, 2012 and 2011, respectively.

Interest and Other Income

Interest on cash and cash equivalents and other income increased \$47 thousand from \$6 thousand for the three months ended September 30, 2011 to \$53 thousand for the three months ended September 30, 2012. This increase was due to miscellaneous income associated with our San Antonio and Washington, D.C. hotels.

Interest Expense

Interest expense increased \$0.5 million from \$3.1 million for the three months ended September 30, 2011 to \$3.6 million for the three months ended September 30, 2012 due to interest cost of \$0.3 million on the six new loans acquired or assumed in the third quarter of 2011, as well as incremental interest costs of \$0.2 million on our senior secured revolving credit facility attributable to a higher interest rate on our credit facility borrowings as a result of our higher leverage ratio and average borrowings of \$50.8 million at 5.5% in 2012 compared to weighted average borrowings of \$44.0 million at 4.5% in 2011 and unused commitment fees of 50 basis points on the unused portion of our credit facility.

Loss from Unconsolidated Real Estate Entities

Loss from unconsolidated real estate entities increased \$0.2 million from \$0.0 million for the three months ended September 30, 2011 to \$0.2 million for the three months ended September 30, 2012. We did not own an interest in the JV at September 30, 2011.

Income Tax Benefit (Expense)

Income tax benefit (expense) increased \$100 thousand from \$61 thousand expense for the three months ended September 30, 2011 to \$39 thousand benefit for the three months ended September 30, 2012 due to 2011 tax refunds recognized after completing our final 2011 tax returns. We are subject to income taxes based on the taxable income of our taxable REIT subsidiary holding companies at a combined federal and state tax rate of approximately 40%.

Net income (loss)

Net income was \$1.5 million for the three months ended September 30, 2012, compared to a net loss of \$1.0 million for the three months ended September 30, 2011. This increase 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 the risk factors identified in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2011.

Comparison of the Nine Months Ended September 30, 2012 (2012) to the Nine Months Ended September 30, 2011 (2011)

Results of operations for the nine months ended September 30, 2012 include the operating activities of our 18 wholly-owned hotels and our investment in the JV at September 30, 2012. The 5 Sister Hotels were purchased on July 14, 2011. Additionally, the primary driver of the increase in room revenue is through the growth in RevPar year over year.

As reported by Smith Travel Research, industry RevPAR for the nine months ended September 30, 2012 and 2011 was up 6.9% and up 8.3%, from the comparative 9 months in the prior year, respectively. RevPAR at our hotels was up 8.1% and 1.9% in the 2012 and 2011 periods. In addition, 5 of our 13 hotels were undergoing significant renovations in 2011. Approximately two-thirds of our RevPAR growth in 2012 was attributable to occupancy.

Revenues

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Total revenue was \$76.2 million for the nine months ended September 30, 2012 compared to total revenue of \$51.0 million for the 2011 period due to the increased number of hotels owned in the 2012 period. Since all of our hotels are select service or limited service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue was \$71.8 million and \$49.3 million for the nine months ended September 30, 2012 and 2011, respectively. Total revenue for the 5 Sisters hotels for the nine months ended September 30, 2012 and 2011 was \$28.5 million and \$7.5 million, respectively.

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Since room revenue is the primary component of total revenue, our revenue results are dependent on maintaining and improving hotel occupancy, ADR and RevPAR at our hotels. Occupancy, ADR, and RevPAR results are presented in the following table in each period to reflect operation of the hotels regardless of ownership (the 5 Sisters were not owned by us until July 14, 2011, but are included below for comparative purposes):

| | For the nine months ended September 30, 2012 | For the nine months ended September 30, 2011 |
|-----------|---|---|
| Occupancy | 82.9% | 79.4% |
| ADR | \$ 130.96 | \$ 126.37 |
| RevPar | \$ 108.50 | \$ 100.40 |

Other operating revenue, comprised of meeting room, gift shop, in-room movie and other ancillary amenities revenue, was \$3.3 million and \$1.7 million for the nine months ended September 30, 2012 and 2011, respectively. As a percentage of total revenue, other operating revenue was 4.3% and 3.3% for the nine months ended September 30, 2012 and 2011, respectively. Other operating revenue for the 5 Sisters was \$1.9 million for the nine months ended September 30, 2012.

Cost reimbursements from unconsolidated real estate entities, comprised of payroll costs at the JV where the Company is the employer, were \$1.2 million and \$0.0 million for the nine months ended September 30, 2012 and 2011, respectively.

Hotel Operating Expenses

Hotel operating expenses increased \$12.1 million to \$41.2 million for the nine months ended September 30, 2012 compared to \$29.1 million for the nine months ended September 30, 2011 due to the increased number of hotels owned in the 2012 period. As a percentage of total revenue, hotel operating expenses were 54% for 2012 and 57% for 2011, which decrease is expected as ADR grows year over year and because the 5 Sisters operate at a higher gross profit margin than the other 13 hotels (48.6% gross operating profit margin for the 5 Sisters compared to 43.2% for the other 13 hotels for the nine months ended September 30, 2012). Room expenses, which are the most significant component of hotel operating expenses, increased \$4.8 million to \$15.7 million in 2012 from \$10.9 million in 2011 or 20.6% and 21.3% of total revenue for the nine months ended September 30, 2012 and 2011, respectively. Other direct expenses, which include management and franchise fees, insurance, utilities, repairs and maintenance, advertising and sales, and hotel general and administrative expenses increased \$7.3 million to \$25.5 million in 2012 from \$18.2 million in 2011.

Depreciation and Amortization

Depreciation and amortization expense increased \$2.3 million from \$8.6 million for the nine months ended September 30, 2011 to \$10.9 million for the nine months ended September 30, 2012. The increase is due to the increased number of hotels during the 2012 period, offset by depreciation in 2011 due to the disposition and replacement of furniture and fixtures at 6 hotels where major renovations were completed in 2011. Depreciation is recorded on our hotel buildings over 40 years from the date of acquisition. Depreciable lives of hotel furniture, fixtures and equipment are generally three to ten years between the date of acquisition and the date that the furniture, fixtures and equipment will be replaced. Amortization of franchise fees is recorded over the term of the respective franchise agreement.

Personal Property Taxes and Insurance

Total property tax and insurance expenses increased \$1.5 million from \$3.7 million for the nine months ended September 30, 2011 to \$5.2 million for the nine months ended September 30, 2012. The increase is due primarily to the increased number of hotels owned during the 2012 period, which account for \$1.2 million of the year over year increase.

Corporate General and Administrative

Corporate general and administrative expenses principally consist of employee-related costs, including base payroll and amortization of restricted stock and awards LTIP units. These expenses also include corporate operating costs, professional fees and trustees fees. Total corporate general and administrative expenses (excluding amortization of stock based compensation of \$1.5 and \$1.2 million for the nine months ended September 30, 2012 and 2011, respectively) increased \$0.9 million to \$3.9 million in 2012 from \$3.0 million in 2011. Key increases were related to corporate employee compensation and professional fees.

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Hotel Property Acquisition Costs

Hotel property acquisition costs decreased \$3.5 million from \$3.6 million for the nine months ended September 30, 2011 to \$0.1 million for the nine months ended September 30, 2012. Expenses during the 2011 period related to our acquisition of the 5 Sisters during the 2011 third quarter as well as acquisition costs related to our investment in the JV and the JV's acquisition of 64 hotels described in Note 7, Investment in Unconsolidated Entities, in the notes to our financial statements above. Acquisition-related costs are expensed when incurred.

Reimbursed Costs from Unconsolidated Real Estate Entities

Reimbursed costs from unconsolidated real estate entities, comprised of payroll costs at the JV where the Company is the employer, were \$1.2 million and \$0.0 million for the quarters ended September 30, 2012 and 2011, respectively.

Interest and Other Income

Interest on cash and cash equivalents and other income increased \$36 thousand from \$18 thousand for the nine months ended September 30, 2011 to \$54 thousand for the nine months ended September 30, 2012. This increase was due to miscellaneous income associated with our San Antonio and Washington D.C. hotels.

Interest Expense

Interest expense increased \$6.8 million from \$4.5 million for the nine months ended September 30, 2011 to \$11.3 million for the nine months ended September 30, 2012 due to interest cost of \$4.8 million on six new loans acquired or assumed in the third quarter of 2011, interest of \$1.6 million on our senior secured revolving credit facility with weighted average borrowings of \$58.9 million at an average interest rate of 5.38% in 2012 compared to weighted average borrowings of \$20.4 million at an average interest rate of 4.5%, unused commitment fees of 50 basis points on the unused portion of our credit facility and amortization of deferred financing fees of \$0.4 million for the nine months ended September 30, 2012 relating to the eight total mortgage loans and the credit facility.

Loss from Unconsolidated Real Estate Entities

Loss from unconsolidated real estate entities increased \$0.1 million from \$0.0 million for the nine months ended September 30, 2011 to \$0.1 million for the nine months ended September 30, 2012. We did not own an interest in the JV at September 30, 2011.

Income Tax Benefit (Expense)

Income tax benefit (expense) decreased \$14 thousand from \$75 thousand expense for the nine months ended September 30, 2011 to \$61 thousand expense for the nine months ended September 30, 2012. We are subject to income taxes based on the taxable income of our taxable REIT subsidiary holding companies at a combined federal and state tax rate of approximately 40%.

Net income (loss)

Net income was \$0.9 million for the nine months ended September 30, 2012, compared to a net loss of \$2.9 million for the nine months ended September 30, 2011. This decrease in loss 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 the risk factors identified in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2011.

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, and (4) Adjusted EBITDA. These non-GAAP financial measures could be considered along with, but not as alternatives to, net income or loss as a measure of our operating performance prescribed by GAAP.

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FFO, Adjusted FFO, EBITDA and Adjusted 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 and Adjusted EBITDA are not

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measures of our liquidity, nor are FFO, Adjusted FFO, EBITDA or Adjusted EBITDA indicative of funds available to fund our cash needs, including our ability to make cash distributions. These measurements do not reflect cash expenditures for long-term assets and other items that have been and will be incurred. FFO, Adjusted FFO, EBITDA and Adjusted EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions, and other commitments and uncertainties.

We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (NAREIT), which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, impairment write-downs, items classified by GAAP as extraordinary, 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 performance of our underlying hotel properties. We believe that these items are more representative of our asset base and our acquisition and disposition activities than our ongoing operations, and that by excluding the effects of the items, FFO is useful to investors in comparing our operating performance between periods and between REITs that report FFO using the NAREIT definition.

We further adjust FFO for certain additional items that are not in NAREIT's definition of FFO, including hotel property acquisition costs and other charges and \$42 thousand related to acquisition costs within the unconsolidated real estate entities. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs that make similar adjustments to FFO.

The following is a reconciliation of net income (loss) to FFO and Adjusted FFO for the three and nine months ended September 30, 2012 and 2011 (in thousands, except share data):

| | <i>For the three months ended</i> | | <i>For the nine months ended</i> | |
|--|-----------------------------------|-----------------|----------------------------------|-----------------|
| | <i>September 30,</i> | | <i>September 30,</i> | |
| | <i>2012</i> | <i>2011</i> | <i>2012</i> | <i>2011</i> |
| Funds From Operations (FFO): | | | | |
| Net income (loss) | \$ 1,498 | \$ (955) | \$ 924 | \$ (2,910) |
| Loss (gain) on the sale of assets within the unconsolidated real estate entity | 188 | | (482) | |
| Depreciation | 3,380 | 3,381 | 10,805 | 8,604 |
| Adjustments for unconsolidated real estate entity items | 1,262 | | 3,787 | |
| FFO | 6,328 | 2,426 | 15,034 | 5,694 |
| Hotel property acquisition costs and other charges | 24 | 2,104 | 108 | 3,587 |
| Adjustments for unconsolidated real estate entity items | | | 42 | |
| Adjusted FFO | \$ 6,352 | \$ 4,530 | \$ 15,184 | \$ 9,281 |
| Weighted average number of common shares | | | | |
| Basic | 13,819,371 | 13,766,297 | 13,808,172 | 13,115,439 |
| Diluted | 13,908,907 | 13,766,297 | 13,896,486 | 13,115,439 |

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

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We further adjust EBITDA for certain additional items, including hotel property acquisition costs and other charges and \$42 thousand related to acquisition costs within the unconsolidated real estate entities and amortization of non-cash share-based compensation which we believe are not indicative of the performance of our underlying hotel properties. We believe that Adjusted EBITDA provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs that report similar measures.

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The following is a reconciliation of net income (loss) to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2012 and 2011 (in thousands):

| | <i>For the three months ended</i> | | <i>For the nine months ended</i> | |
|---|-----------------------------------|-----------------|----------------------------------|------------------|
| | <i>September 30,</i> | | <i>September 30,</i> | |
| | <i>2012</i> | <i>2011</i> | <i>2012</i> | <i>2011</i> |
| Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA): | | | | |
| Net income (loss) | \$ 1,498 | \$ (955) | \$ 924 | \$ (2,910) |
| Interest expense | 3,627 | 3,087 | 11,303 | 4,503 |
| Income tax expense (benefit) | (39) | 61 | 61 | 75 |
| Loss (gain) on the sale of assets within the unconsolidated real estate entity | 188 | | (482) | |
| Depreciation and amortization | 3,399 | 3,399 | 10,861 | 8,647 |
| Adjustments for unconsolidated real estate entity items | 2,800 | | 8,236 | |
| EBITDA | 11,473 | 5,592 | 30,903 | 10,315 |
| Hotel property acquisition costs and other charges | 24 | 2,104 | 108 | 3,587 |
| Adjustments for unconsolidated real estate entity items | | | 42 | |
| Share based compensation | 518 | 393 | 1,485 | 1,178 |
| Adjusted EBITDA | \$ 12,015 | \$ 8,089 | \$ 32,538 | \$ 15,080 |

Although we present FFO, Adjusted FFO, EBITDA and Adjusted 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 and Adjusted EBITDA do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

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

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

EBITDA and Adjusted 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 and Adjusted 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;

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

In addition, FFO, Adjusted FFO, EBITDA and Adjusted EBITDA do not represent cash generated from operating activities as determined by GAAP and should not be considered as alternatives to net income or loss, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO, Adjusted FFO, EBITDA and Adjusted EBITDA are not measures of our liquidity. Because of these limitations, FFO, Adjusted FFO, EBITDA and Adjusted 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 and Adjusted 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 and debt repayments and distributions to equity holders.

As of September 30, 2012 and December 31, 2011, we had cash and cash equivalents of approximately \$5.7 million and \$4.7 million, respectively. Additionally, we had \$36.5 million available under our \$85.0 million senior secured revolving credit facility as of September 30, 2012. We were able to repay \$5.0 million of this net indebtedness during the third quarter of 2012 due to cash flow generated from operations of our wholly-owned portfolio as well as distributions of cash flow from the JV.

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For the nine months ended September 30, 2012, net cash flows provided by operations were \$10.4 million, as our net income of \$0.9 million was due in significant part to non-cash expenses, including \$12.3 million of depreciation and amortization, \$1.5 million of share-based compensation expense, \$0.1 million impact from loss from unconsolidated entities. In addition, changes in operating assets and liabilities due to the timing of cash receipts, payments for real estate taxes, payments of corporate compensation and payments from our hotels resulted in net cash outflow of \$4.4 million. Net cash flows provided by investing activities were \$19.1 million, primarily related to the receipt of distributions from unconsolidated real estate entities of \$20.9 million consisting of \$11.7 million of net proceeds from mortgage financing, \$4.1 million attributable to cash generated from the operations of the JV and \$5.1 million for the sale of assets and reimbursements from required escrows of \$2.7 million, offset by additional capital improvements to the eighteen hotels of \$4.5 million. Future distributions from unconsolidated real estate entities are contingent upon projected hotel operations and the potential sale of assets. Net cash flows used in financing activities were \$28.4 million, comprised primarily of net repayments on our secured credit facility of \$19.0 million, principal payment on mortgage debt of \$1.2 million, payment of deferred financing and offering costs of \$0.4 million and distributions to shareholders of \$7.8 million.

For the nine months ended September 30, 2011, net cash flows provided by operations were \$8.4 million, as our net loss of \$2.9 million was due in significant part to non-cash expenses, including \$9.8 million of depreciation and amortization and \$1.2 million of share-based compensation expense. In addition, changes in operating assets and liabilities due to the timing of cash receipts and payments from our hotels resulted in net cash inflow of \$0.3 million. Net cash flows used in investing activities were \$75.0 million, primarily related to the acquisition of the 5 Sisters of \$62.0, additional capital improvements to the eighteen hotels of \$9.6 million and \$3.4 million of funds placed into escrows for future acquisitions and lender or manager required escrows. Net cash flows provided by financing activities were \$70.0 million, comprised primarily of proceeds generated from the February 2011 common share offering, net of underwriting fees and offering costs paid or payable to third parties, of \$69.4 million, proceeds from the issuance of a mortgage loan on our New Rochelle hotel of \$15.8 million, offset by net repayments on our secured credit facility of \$6.8 million, principal payment on mortgage debt of \$0.3 million, payment of financing costs associated with our amended secured revolving credit facility and the six new loans acquired or assumed of \$1.5 million and distributions to shareholders of \$6.6 million.

We have paid regular quarterly dividends and distributions on common shares and LTIP units since the third quarter of 2010. Dividends and distributions for each of the quarters of 2011 and the first quarter of 2012 were \$0.175 per common share and LTIP unit. Dividends and distributions for the second and third quarters of 2012 increased to \$0.20 per common share and LTIP unit. On October 26, 2012, we paid an aggregate of \$2.8 million in third quarter dividends on our common shares and distributions on our LTIP units.

Liquidity and Capital Resources

We intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) to less than 35 percent measured at the time we incur debt, and a subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this limitation. However, our Board of Trustees believes that temporarily increasing our leverage limit at this stage of the lodging recovery cycle is appropriate. We will continue to pay down borrowings on our secured revolving credit facility with excess cash flow until we find other uses of cash such as investments in our existing hotels, hotel acquisitions or further joint venture investments.

At September 30, 2012 and December 31, 2011, we had \$48.5 million and \$67.5 million, respectively, in borrowings under our \$85 million senior secured revolving credit facility. At September 30, 2012, there were ten properties in the borrowing base under the credit agreement and the maximum borrowing availability under the revolving credit facility was approximately \$78.7 million. We also had mortgage debt on individual hotels aggregating \$160.2 million and \$161.4 million at September 30, 2012 and December 31, 2011, respectively.

We amended our \$85 million senior secured revolving credit facility in May 2011. The amendment provides for an increase in the allowable consolidated leverage ratio to 60 percent through 2012, reducing to 55 percent in 2013; and a decrease in the consolidated fixed charge coverage ratio from 2.3x to 1.7x through March 2012, increasing to 1.75x through December 2012 and 2.0x in 2013. Subject to certain conditions, the credit facility still has an accordion feature that provides the Company with the ability to increase the facility to \$110 million. We further amended the \$85 million senior secured revolving credit facility in November 2012.

The credit facility contains representations, warranties, covenants, terms and conditions customary for transactions of this type, including a maximum leverage ratio, a minimum fixed charge coverage ratio and minimum net worth financial covenants, limitations on (i) liens, (ii) incurrence of debt, (iii) investments, (iv) distributions, and (v) mergers and asset dispositions, covenants to preserve corporate existence and comply with laws, covenants on the use of proceeds of the credit facility and default provisions, including defaults for non-payment, breach of representations and warranties, insolvency,

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non-performance of covenants, cross-defaults and guarantor defaults. The five mortgage loans we assumed in connection with the acquisition of the 5 Sisters, as well as the loan secured by the New Rochelle Residence Inn, do not contain any financial covenants. We were in compliance with these financial covenants at September 30, 2012. We expect to meet all financial covenants in 2012 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 credit facility. 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 only as suitable opportunities arise. We intend to finance our future investments with the net proceeds from additional issuances of common and preferred shares, issuances of units of limited partnership interest in our operating partnership or other securities or borrowings. The success of our acquisition strategy depends, in part, on our ability to access additional capital through issuances of equity securities and borrowings. 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 that do not meet our long-term investment objectives as a means to provide liquidity.

Dividend Policy

Our current common dividend policy is generally to distribute, annually, at least 100% of our annual taxable income. The amount of any dividends is determined by our Board of Trustees. On September 10, 2012, our Board of Trustees declared a dividend of \$0.20 per common share and LTIP unit. The dividends to our common shareholders and the distributions to our LTIP unit holders were paid on October 26, 2012 to holders of record as of September 28, 2012.

Capital Expenditures

We intend to maintain each hotel property in good repair and condition and in conformity with applicable laws and regulations and in accordance with the franchisor's standards and any agreed-upon requirements in our management and loan agreements. After we acquire a hotel property, we may be required to complete a property improvement plan (PIP) in order to be granted a new franchise license for that particular hotel property. PIPs are intended to bring the hotel property up to the franchisor's standards. Certain of our loans require that we escrow for property improvement purposes, at the hotels collateralizing these loans, amounts up to 5% of gross revenue from such hotels. We intend to spend amounts necessary to comply with any reasonable loan or franchisor 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 the revolving credit facility.

For the three months ended September 30, 2012 and 2011, we invested approximately \$1.6 million and \$2.3 million, respectively, and for the nine months ended September 30, 2012 and 2011, we invested approximately \$6.5 million and \$9.8 million, respectively, on capital investments in our hotels. We expect to invest an additional \$2.8 million on capital improvements in 2012 on our existing hotels.

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2012, and the effect these obligations are expected to have on our liquidity and cash flow in future periods (in thousands). We had no other material off-balance sheet arrangements at September 30, 2012 other than non-recourse debt associated with the JV as discussed below.

| Contractual Obligations | Total | Payments Due by Period | | | |
|---|------------|------------------------|--------------------|---------------------|----------------------|
| | | Less Than One Year | One to Three Years | Three to Five Years | More Than Five Years |
| Corporate office lease | \$ 113 | \$ 10 | \$ 79 | \$ 24 | \$ |
| Revolving credit facility, including interest (1) | 51,350 | 713 | 50,638 | | |
| Ground leases | 12,546 | 51 | 412 | 422 | 11,660 |
| Property loans, including interest (1) | 201,026 | 724 | 23,170 | 159,394 | 17,738 |
| | \$ 265,035 | \$ 1,498 | \$ 74,299 | \$ 159,840 | \$ 29,398 |

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- (1) Does not reflect additional borrowings under the revolving credit facility after September 30, 2012 and interest payments are based on the interest rate in effect as of September 30, 2012. See Note 8, Debt to our consolidated financial statements for additional information relating to our property loans.

In addition, we pay management fees to our hotel management companies based on the revenues of our hotels.

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

In connection with certain non-recourse JV mortgage loans, our Operating Partnership could be required to repay portions of the indebtedness, up to an amount commensurate with our 10.3% interest in the JV, 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 U.S. 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, 2011.

Recently Issued Accounting Standards

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 created a uniform framework for applying fair value measurement principles for companies around the world and clarified existing guidance in U.S. GAAP. ASU 2011-04 is effective for the first annual reporting period beginning after December 15, 2011. The Company adopted this standard and it did not have any material effect on the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. This update is intended to increase the prominence of other comprehensive income in the financial statements by requiring public companies to present comprehensive income either as a single statement detailing the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income or using a two statement approach including both a statement of income and a statement of comprehensive income. The option to present other comprehensive income in the statement of changes in equity has been eliminated. The amendments in this update are effective for public companies for fiscal years, and interim periods beginning after December 15, 2011. Currently, the Company has no items of other comprehensive income in any periods presented.

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. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we will 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 and maturity and fair value of the underlying collateral. The estimated fair value of the Company's fixed rate debt at September 30, 2012 and December 31, 2011 was \$169.2 million and \$159.4 million, respectively.

At September 30, 2012, 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 our financial instruments that are sensitive to changes in interest rates (in thousands):

| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total | Fair Value |
|---------------------------|--------|-----------|----------|----------|------------|------------|------------|------------|
| Liabilities | | | | | | | | |
| Floating rate: | | | | | | | | |
| Debt | | \$ 48,500 | | | | | \$ 48,500 | \$ 48,526 |
| Average interest rate (1) | 5.50% | 5.50% | | | | | 5.50% | |
| Fixed rate: | | | | | | | | |
| Debt | \$ 463 | \$ 1,981 | \$ 2,106 | \$ 6,785 | \$ 134,737 | \$ 14,141 | \$ 160,213 | \$ 169,207 |
| Average interest rate | 5.95% | 5.95% | 5.95% | 5.88% | 6.00% | 5.75% | 5.97% | |

(1) LIBOR floor rate of 1.25% plus a margin of 4.25% at September 30, 2012. The one-month LIBOR rate was 0.22% at September 30, 2012. We estimate that a hypothetical one-percentage point increase in the variable interest rate would result in additional interest expense of approximately \$0.5 million annually. This assumes that the amount outstanding under our floating rate debt remains at \$48.5 million, the balance as of September 30, 2012.

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Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are not presently subject to any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties. See Note 13 in the Notes to the Consolidated Financial Statements, Commitments and Contingencies Litigation .

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, 2011.

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.

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

The following exhibits are filed as part of this report:

| Exhibit Number | Description of Exhibit |
|-----------------------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURE

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

CHATHAM LODGING TRUST

Dated: November 7, 2012

/s/ DENNIS M. CRAVEN

Dennis M. Craven

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)