

Chatham Lodging Trust  
Form 8-K/A  
October 20, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 8-K/A**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): August 4, 2010**

**CHATHAM LODGING TRUST**

(Exact name of Registrant as specified in its charter)

**Maryland**

(State or Other Jurisdiction  
of Incorporation or Organization)

**001-34693**

(Commission File Number)

**27-1200777**

(I.R.S. Employer Identification No.)

**50 Coconut Row, Suite 216**

**Palm Beach, Florida**

(Address of principal executive offices)

**33480**

(Zip Code)

**(561) 802-4477**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name or former address, if changed from last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

This Form 8-K/A amends and supplements the registrant's Form 8-K, as filed on August 4, 2010, to include historical financial statements and unaudited pro forma financial information required by Item 9.01 (a) and (b).

**Item 9.01. Financial Statements and Exhibits.**

(a) *Financial Statements of Businesses Acquired.*

**Residence Inn by Marriott® Holtsville, NY**

**Holtsville Hotel Group, LLC**

Report of Independent Registered Public Accounting Firm

Balance Sheets as of June 30, 2010 (Unaudited) and December 31, 2009 and 2008

Statements of Operations for the six-month period ended June 30, 2010 (Unaudited), for the year ended December 31, 2009 and 2008

Statements of Members' Capital for the six-month period ended June 30, 2010 (Unaudited), for the year ended December 31, 2009 and 2008.

Statements of Cash Flows for the six-month period ended June 30, 2010 (Unaudited), for the year ended December 31, 2009 and 2008

Notes to Financial Statements

(b) *Pro Forma Financial Information.*

**Chatham Lodging Trust**

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2010

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended June 30, 2010

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2009

(d) *Exhibits.*

**Exhibit**

| <b>Number</b> | <b>Description</b>                    |
|---------------|---------------------------------------|
| 23.1          | Consent of PricewaterhouseCoopers LLP |

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**SIGNATURE**

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

**CHATHAM LODGING TRUST**

Date: October 19, 2010

By: /s/ Dennis M. Craven  
Dennis M. Craven  
Executive Vice President and Chief  
Financial Officer

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**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                    |   |
|---------------------------|---------------------------------------|---|
| 23.1                      | Consent of PricewaterhouseCoopers LLP | 4 |

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**Holtsville Hotel Group, LLC**

**Unaudited Condensed Financial Statements**

**June 30, 2010**

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**HOLTSVILLE HOTEL GROUP, LLC**  
Condensed Balance Sheets  
(Dollars in thousands)

|                                     | <b>June 30,<br/>2010<br/>(unaudited)</b> | <b>December<br/>31,<br/>2009</b> |
|-------------------------------------|--|----------------------------------|
| <b>Assets</b>                       |  |                                  |
| Investment in hotel properties, net | \$ 10,523                                | \$ 10,557                        |
| Cash and cash equivalents           | 308                                      | 344                              |
| Restricted cash                     | 661                                      | 714                              |
| Hotel receivables and other assets  | 213                                      | 108                              |

The accompanying notes are an integral part of the condensed financial statements.

**HOLTSVILLE HOTEL GROUP, LLC**  
 Condensed Statements of Operations (Unaudited)  
 (Dollars in thousands)

|                               | <b>For the Six<br/>Months<br/>Ended<br/>June 30, 2010</b> | <b>For the Six<br/>Months<br/>Ended<br/>June 30, 2009</b> |
|-------------------------------|---|---|
| Revenue:                      |   |   |
| Hotel operating:              |   |   |
| Rooms                         | \$ 2,197  | \$ 2,134  |
| Other operating               | 55  | 54  |
| Total revenue                 | 2,252   | 2,188   |
| Expenses:                     |   |   |
| Operating expenses:           |   |   |
| Rooms                         | 479   | 452   |
| Other                         | 35  | 36  |
| General and administrative    | 491   | 516   |
| Sales and marketing fees      | 74  | 71  |
| Franchise fees                | 165   | 161   |
| Management fees               | 67  | 65  |
| Depreciation and amortization | 193   | 240   |
| Property taxes                | 124   | 141   |
| Total expenses                | 1,628   | 1,682   |
| Operating income              | 624   | 506   |
| Interest expense              | 361   | 369   |
| Net income                    | \$ 263  | \$ 137  |

The accompanying notes are an integral part of the condensed financial statements.

**HOLTSVILLE HOTEL GROUP, LLC**  
Condensed Statements of Members Deficit (Unaudited)  
For the Six Months Ended June 30, 2010  
(Dollars in thousands)

|                              | <b>S&amp;S Hotels<br/>LLC</b> | <b>FB<br/>Holtsville<br/>Partners<br/>LLC</b> | <b>Total</b> |
|------------------------------|-------------------------------|---|--------------|
| Balance at December 31, 2009 | \$ (432)                      | \$ (1,298)                                    | \$ (1,730)   |
| Distributions                | (13)                          | (39)  | (52)         |
| Net income                   | 66                            | 197   | 263          |
| Balance at June 30, 2010     | \$ (379)                      | \$ (1,140)                                    | \$ (1,519)   |

The accompanying notes are an integral part of the condensed financial statements.



**HOLTSVILLE HOTEL GROUP, LLC**  
Condensed Statements of Cash Flows (Unaudited)  
(Dollars in thousands)

|   | <b>For the Six<br/>Months<br/>Ended<br/>June 30, 2010</b> | <b>For the Six<br/>Months<br/>Ended<br/>June 30, 2009</b> |
|---|---|---|
| Cash flows from operating activities:   |   |   |
| Net income  | \$ 263  | \$ 137  |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |   |
| Depreciation and amortization   | 193   | 240   |
| Changes in assets and liabilities:  |   |   |
| Hotel receivables and other assets  | (77)  | (18)  |
| Accounts payable and accrued expenses   | (62)  | (6)   |
| Net cash provided by operating activities   | 317   | 353   |
| Cash flows from investing activities:   |   |   |
| Capital expenditures  | (151)   | (13)  |
| Restricted cash   | 53  | 14  |
| Net cash (used in) provided by investing activities                               | (98)  | 1   |
| Cash flows from financing activities:   |   |   |
| Payment of mortgage loan  | (167)   | (138)   |
| Payments for financing costs  | (36)  |   |
| Capital distributions   | (52)  | (70)  |
| Net cash used in financing activities   | (255)   | (208)   |
| Net change in cash and cash equivalents   | (36)  | 146   |
| Cash and cash equivalents, beginning of period                                    | 344   | 334   |
| Cash and cash equivalents, end of period  | \$ 308  | \$ 480  |
| Supplemental disclosure of cash flow information:                                 |   |   |
| Cash paid during the year for interest  | \$ 340  | \$ 369  |

The accompanying notes are an integral part of the condensed financial statements.

## Notes to Condensed Financial Statements (Unaudited)

**1) General**

The statements presented herein have been prepared in conformity with accounting principles generally accepted in the United States of America and should be read in conjunction with the audited balance sheet as of December 31, 2009, and the related statements of operations, changes in members' deficit, and cash flows for the year ended December 31, 2009. In the opinion of management, all adjustments that are deemed necessary have been made in order to fairly present the unaudited interim financial statements for the period and accounting policies have been consistently applied.

**2) Investment in Hotel Properties, net**

Investment in hotel properties, net as of June 30, 2010 and December 31, 2009 consists of the following (in thousands):

|                                     | <b>2010</b> | <b>2009</b> |
|-------------------------------------|-------------|-------------|
| Land                                | \$ 2,377    | \$ 2,377    |
| Building and improvements           | 10,324      | 10,324      |
| Furniture, fixtures, and equipment  | 2,303       | 2,152       |
| Subtotal                            | 15,004      | 14,853      |
| Less: Accumulated depreciation      | (4,481)     | (4,296)     |
| Investment in hotel properties, net | \$ 10,523   | \$ 10,557   |

**Holtsville Hotel Group, LLC**  
**Financial Statements**  
**As of and for the Year Ended December 31, 2009 and 2008**

Report of Independent Registered Public Accounting Firm

To the Members of  
Holtsville Hotel Group, LLC

In our opinion, the accompanying balance sheets and the related statements of operations, of members' deficit and of cash flows present fairly, in all material respects, the financial position of Holtsville Hotel Group, LLC (the

Company) at December 31, 2009 and 2008, and the results of its operations and its cash flows for the year ended December 31, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

October 19, 2010

**HOLTSVILLE HOTEL GROUP, LLC**Balance Sheets  
(Dollars in thousands)

|   | <b>December<br/>31,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---|----------------------------------|----------------------------------|
| <b>Assets</b>                             |                                  |                                  |
| Investment in hotel properties, net       | \$ 10,557                        | \$ 11,109                        |
| Cash and cash equivalents                 | 344                              | 334                              |
| Restricted cash                           | 714                              | 539                              |
| Hotel receivables and other assets        | 108                              | 157                              |
| <br>Total assets                          | <br>\$ 11,723                    | <br>\$ 12,139                    |
| <b>Liabilities and Members Deficit</b>    |                                  |                                  |
| Mortgage loan                             | \$ 13,176                        | \$ 13,448                        |
| Accounts payable and accrued expenses     | 277                              | 335                              |
| <br>Total liabilities                     | <br>13,453                       | <br>13,783                       |
| Commitments and contingencies (Note 7)    |                                  |                                  |
| Members deficit                           | (1,730)                          | (1,644)                          |
| <br>Total liabilities and members deficit | <br>\$ 11,723                    | <br>\$ 12,139                    |

The accompanying notes are an integral part of the condensed financial statements.

**HOLTSVILLE HOTEL GROUP, LLC**  
 Statements of Operations  
 Years ended December 31, 2009 and 2008  
 (Dollars in thousands)

|                                | <b>For the Year<br/>Ended<br/>2009</b> | <b>For the Year<br/>Ended<br/>2008</b> |
|--------------------------------|--|--|
| Revenue:                       |  |  |
| Hotel operating:               |  |  |
| Rooms                          | \$ 4,398                               | \$ 4,733                               |
| Other                          | 111                                    | 111                                    |
| Total revenue                  | 4,509                                  | 4,844                                  |
| Expenses:                      |  |  |
| Operating expenses:            |  |  |
| Rooms                          | 901                                    | 1,030                                  |
| Other                          | 69                                     | 75                                     |
| General and administrative     | 1,006                                  | 1,175                                  |
| Sales & marketing              | 155                                    | 121                                    |
| Franchise fees                 | 330                                    | 360                                    |
| Management fees                | 135                                    | 145                                    |
| Depreciation and amortization  | 506                                    | 850                                    |
| Property taxes                 | 239                                    | 231                                    |
| Total expenses                 | 3,341                                  | 3,987                                  |
| Operating income               | 1,168                                  | 857                                    |
| Writedown of development costs | 95                                     | 0                                      |
| Interest income                | 1                                      | 3                                      |
| Interest expense               | 740                                    | 757                                    |
| Net income                     | \$ 334                                 | \$ 103                                 |

**HOLTSVILLE HOTEL GROUP, LLC**  
 Statements of Members Deficit  
 For the years ended December 31, 2009 and 2008  
 (Dollars in thousands)

|                              | <b>S&amp;S Hotels<br/>LLC</b> | <b>FB<br/>Holtsville<br/>Partners<br/>LLC</b> | <b>Total</b> |
|------------------------------|-------------------------------|---|--------------|
| Balance at January 1, 2008   | \$ (258)                      | \$ (769)                                      | \$ (1,027)   |
| Distributions                | (178)                         | (542)   | (720)        |
| Net income                   | 26                            | 77  | 103          |
| Balance at December 31, 2008 | \$ (410)                      | \$ (1,234)                                    | \$ (1,644)   |
| Distributions                | (105)                         | (315)   | (420)        |
| Net income                   | 83                            | 251   | 334          |
| Balance at December 31, 2009 | \$ (432)                      | \$ (1,298)                                    | \$ (1,730)   |

The accompanying notes are an integral part of the condensed financial statements.

**HOLTSVILLE HOTEL GROUP, LLC**

## Statements of Cash Flows

(Dollars in thousands)

|  | <b>For the Year<br/>Ended<br/>2009</b> | <b>For the Year<br/>Ended<br/>2008</b> |
|--|--|--|
| Cash flows from operating activities:  |  |  |
| Net income   | \$ 334                                 | \$ 103                                 |
| Adjustments to reconcile net income to net cash provided<br>by operating activities: |  |  |
| Depreciation and amortization  | 506                                    | 850                                    |
| Write-off of development costs   | 95                                     |  |
| Changes in assets and liabilities:   |  |  |
| Hotel receivables and other assets   | 22                                     | 28                                     |
| Accounts payable and accrued expenses  | (58)                                   | (11)                                   |
| Net cash provided by operating activities  | 899                                    | 970                                    |
| Cash flows from investing activities:  |  |  |
| Capital expenditures   | (22)                                   | (10)                                   |
| Restricted cash  | (175)                                  | 57                                     |
| Net cash (used in) provided by investing activities                                  | (197)                                  | 47                                     |
| Cash flows from financing activities:  |  |  |
| Payment of mortgage loan   | (272)                                  | (255)                                  |
| Capital distributions  | (420)                                  | (720)                                  |
| Net cash used in financing activities  | (692)                                  | (975)                                  |
| Net change in cash and cash equivalents  | 10                                     | 42                                     |
| Cash and cash equivalents, beginning of year   | 334                                    | 292                                    |
| Cash and cash equivalents, end of year   | \$ 344                                 | \$ 334                                 |
| Supplemental disclosure of cash flow information:                                    |  |  |
| Cash paid during the year for interest   | \$ 741                                 | \$ 746                                 |

The accompanying notes are an integral part of the condensed financial statements.



## HOLTSVILLE HOTEL GROUP, LLC

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands)

### (1) Organization

Holtsville Hotel Group, LLC (the Company) is a single member Delaware limited liability corporation formed on June 15, 2005. The Company is wholly owned by Holtsville Associates, LLC (the Limited Liability Company). The Limited Liability Company is 75% owned by FB Holtsville Partners, LLC (the Manager Member) and 25% owned by Schleicher & Stebbins, LLC (the Member). Profits and losses of the Company are allocated 75% to the Managing Member and 25% to the Member. The purpose of the Company is to engage in the business of owning, maintaining, developing, improving, operating, managing, leasing and transferring the 124-room Residence Inn-Holtsville in Long Island, New York (the Hotel). The Company shall continue indefinitely unless it is dissolved earlier in accordance with the limited liability operating agreement.

The hotel was placed in service in May 2004. The Company owns a 100% equity interest in the Hotel. The Hotel is operated by Colwen Management, Inc. (the Operator), pursuant to a Management Agreement dated August 23, 2003 (the Management Agreement) (Note 5). The Hotel operates as a Residence Inn pursuant to a Franchise Agreement dated February 3, 2003 (Franchise Agreement) with Marriott International, Inc. (Note 6).

### (2) Summary of Significant Accounting Policies

#### ***Basis of Presentation***

The financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

#### ***Use of Estimates***

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Investment in Hotel Properties***

Investment in hotel properties consists primarily of land, buildings, improvements and related fixtures and equipment. Investment in hotel properties is stated at cost and is depreciated using the straight-line method over estimated useful lives of 39 years for building, 15 years for improvements, 5 and 7 years for furniture, fixtures and equipment and 5 years for computer equipment. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. When property and/or equipment are sold or retired, their cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in operations.

#### ***Impairment of Long-Lived Assets***

The Company periodically evaluates the recoverability of its hotel assets when events or circumstances indicate that the asset may be impaired. This evaluation consists of a comparison of the carrying value of the asset with the asset's expected future cash flows, undiscounted and without interest costs. Estimates of expected future cash flows represent

**HOLTSVILLE HOTEL GROUP, LLC**

Notes to Financial Statements

December 31, 2009 and 2008

(Dollars in thousands)

management's best estimate based on reasonable and supportable assumptions and projections. If the expected future undiscounted cash flows exceed the carrying value of the asset, no impairment is recognized. If expected future undiscounted cash flows are less than the carrying value of the asset then impairment is indicated. Such impairment is measured as the difference between the carrying value of the asset and its discounted cash flow. During 2009 and 2008, there were no events or changes in circumstances indicating that the carrying value of the hotel asset may not be recoverable.

***Cash and Cash Equivalents***

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The Hotel maintains its cash accounts at various major financial institutions within the United States of America. At times, deposits may be in excess of federally insured limits. The Company has not experienced any losses on cash deposited with the financial institutions.

***Restricted Cash***

The mortgage loan agreement requires the Company to fund on a monthly basis reserves for furnishings, fixtures, equipment and general repair maintenance of the Hotel. The Company is also required to fund reserves for insurance premiums and real estate taxes. The reserves are in an account to be held by the lender.

***Deferred Financing Fees***

The Company's deferred financing costs relate to fees and costs incurred to obtain long-term financing to purchase the Hotel. These costs are amortized using the straight-line method, which approximates the effective interest method, over the life of the applicable borrowing and are included as a component of interest expense. Capitalized deferred financial costs are recorded in Hotel receivables and other assets and totaled \$143 as of December 31, 2009 and 2008. Accumulated amortization at December 31, 2009 and 2008 was \$125 and \$97 respectively.

***Revenue Recognition***

Room revenues are recognized the night of occupancy. Cash received prior to guest arrival is recorded as an advanced deposit from customers and recognized as revenue at the time of occupancy.

Other revenues are also recognized for food, beverage, telephone charges and various ancillary services performed at the time the service is provided.

***Fair value of Non-Financial Assets and Liabilities***

Effective January 1, 2009, the Company adopted a new accounting pronouncement which affects how fair value is determined for non-financial assets that are measured at fair value on a non-recurring basis such as intangibles and long-lived assets, including the incorporation of market participant assumption in determining the fair value. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

**HOLTSTVILLE HOTEL GROUP, LLC**

Notes to Financial Statements  
December 31, 2009 and 2008  
(Dollars in thousands)

***Income Taxes***

The Company has elected to be a limited liability company for federal tax purposes. As such, no federal or state income taxes are payable by the Company and none have been provided for in the accompanying financial statements. In accordance with partnership taxation, each of the members is responsible for reporting its share of taxable income or loss. The Company analyzed its material tax positions and determined that it has not taken any uncertain tax positions.

**(3) Investment in Hotel Properties**

Investment in hotel properties, net, as of December 31, 2009 and 2008 consists of the following:

|                                     | <b>2009</b> | <b>2008</b> |
|-------------------------------------|-------------|-------------|
| Land                                | \$ 2,377    | \$ 2,377    |
| Building and improvements           | 10,324      | 10,324      |
| Furniture, fixtures, and equipment  | 2,152       | 2,225       |
| Subtotal                            | 14,853      | 14,926      |
| Less: Accumulated depreciation      | (4,296)     | (3,817)     |
| Investment in hotel properties, net | \$ 10,557   | \$ 11,109   |

**(4) Mortgage Loan**

On September 11, 2005, the Company entered into a \$14,250 mortgage loan (the Mortgage Loan). The Mortgage Loan is collateralized by the Hotel. The Mortgage Loan matured on August 11, 2010, and does not allow for any prepayment prior to the maturity date. The Mortgage Loan bears interest at a fixed rate of 5.482% and requires monthly interest and principal payments on a 27-year amortization schedule. The Mortgage Loan requires the Company to maintain a certain debt service coverage ratio.

The Mortgage Loan requires the Company to make a monthly deposit to a tax and insurance escrow fund ( Tax and Insurance Escrow ) held by Wells Fargo Bank/Lehman Brothers (the Lender ) for real estate taxes and insurance related to the Hotel. At December 31, 2009 and 2008, the Tax and Insurance Escrow had a balance of \$55 and \$30, respectively. These funds are included in the restricted cash in the Balance Sheet.

**HOLTSTVILLE HOTEL GROUP, LLC**

Notes to Financial Statements  
December 31, 2009 and 2009  
(Dollars in thousands)

The Mortgage Loan requires the Company to make a monthly deposit to a furniture, fixture and equipment escrow fund ( FF&E Escrow ) for the replacement or refurbishment of furniture, fixtures, and equipment of the Hotel. The FF&E Escrow is held by the Lender. At December 31, 2009 and 2008, the FF&E Escrow had a balance of \$659 and \$509, respectively. These funds are included in restricted cash in the Balance Sheet. The Mortgage Loan had a principal balance of \$13,176 and \$13,448 at December 31, 2009 and 2008, respectively. Future scheduled debt principal payments at December 31, 2009 are as follows:

|      |           |
|------|-----------|
| 2010 | \$ 13,176 |
|------|-----------|

**(5) Management Agreement**

The Management Agreement expires on December 31, 2014 and has two successive renewal options to extend the term of the Management Agreement for terms of ten years each. The Management Agreement requires a base management fee equal to 3% of Gross Revenues (as defined) and an incentive management fee equal to 12% of available cash flows (as defined). Pursuant to the terms of the Management Agreement, the Operator provides the Hotel with various services, including marketing, reservations, construction management, and insurance. Base management fee expense was \$135 and \$145, respectively, for the years ended December 31, 2009 and 2008. There was no incentive fee expense was for the years ended December 31, 2009 and 2008. The Company and the Operator terminated the Management Agreement in connection with the sale of the Hotel (see Note 8).

**HOLTSTVILLE HOTEL GROUP, LLC**

Notes to Financial Statements  
December 31, 2009 and 2009  
(Dollars in thousands)

**(6) Franchise Agreement**

The Hotel is subject to a twenty year franchise agreement with Marriott International, Inc. which expires on May 11, 2024 and has one renewal option to extend the term of the Franchise Agreement for ten years. Under the agreement, royalty fees are equal to 5% of hotel gross room revenues (as defined), and marketing fees are equal to 2 1/2% of hotel gross room revenues (as defined). The franchise fee expense for the years ended December 31, 2009 and December 31, 2008 was \$330 and \$360, respectively.

**(7) Commitments and Contingencies**

The Hotel is subject to a 99-year ground lease on two land parcels with FB Holtsville Retail LLC (the Landlord ). The lease expires on July 17, 2101. The current annual rent is one dollar and is a fixed amount for the entire lease period. There are no options to renew.

The nature of the operations of the Hotel exposes the Company to the risk of claims and litigation in the normal course of business. Although the outcome of these matters cannot be determined, management does not expect the ultimate resolution of these matters to have a material adverse effect on the financial position, operations, or liquidity of the Partnership.

**(8) Subsequent Event**

On June 17, 2010, the Company entered into a purchase and sale agreement with Chatham Lodging Trust, a third party, for the sale of the Hotel for a purchase price of \$21.3 million. On August 3, 2010, the sale was completed for the purchase price of \$21.3 million, plus customary pro-rated amounts and closing costs.

The Company has evaluated the need for disclosures and/or adjustments resulting from subsequent events through October 19, 2010, the date the financial statements were available to be issued.

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF  
CHATHAM LODGING TRUST**

Chatham Lodging Trust (the Company) was formed as a Maryland real estate investment trust ( REIT ) on October 26, 2009. The Company completed its initial public offering ( IPO ) and concurrent private placement of common shares of beneficial interest on April 21, 2010. The Company raised approximately \$158.9 million, net of underwriting discounts and commissions and other offering costs paid or payable to third parties as of June 30, 2010.

On April 23, 2010, the Company acquired six Homewood Suites by Hilton® hotels (the Initial Hotels ) for an aggregate purchase price of \$73.5 million, plus customary pro-rated amounts and closing costs from wholly owned subsidiaries of RLJ Development, LLC ( RLJ ). The Initial Hotels which contain an aggregate of 813 rooms are as follows:

Homewood Suites by Hilton® Boston Billerica/Bedford/Burlington; Billerica, Mass.; 147 rooms.

Homewood Suites by Hilton® Hartford Farmington; Farmington, Conn.; 121 rooms.

Homewood Suites by Hilton® Minneapolis Mall of America; Bloomington, Minn., 144 rooms.

Homewood Suites by Hilton® Dallas Market Center; Dallas, Texas; 137 rooms.

Homewood Suites by Hilton® Orlando Maitland; Maitland, Fla.; 143 rooms.

Homewood Suites by Hilton® Nashville Brentwood; Brentwood, Tenn.; 121 rooms.

On July 2, 2010, the Company acquired the 120-room Hampton Inn & Suites® Houston-Medical Center in Houston, Texas (the Houston Hotel ) for a cash purchase price of \$16.2 million, plus customary pro-rated amounts and closing costs, from Moody National 1715 OST Houston S, LLC and Moody National 1715 OST Houston MT, LLC (collectively Moody ). The Houston Hotel will be managed by Island Hospitality Management ( IHM ), a hotel management company 90 percent-owned by Jeffrey H. Fisher, the Company's chief executive officer, pursuant to a management agreement between the Company's taxable REIT subsidiary ( TRS ) and IHM. The Company funded the purchase price for the Houston Hotel from the proceeds of its IPO.

On August 3, 2010, the Company acquired the 124-room Residence Inn by Marriott® Holtsville in Holtsville, New York (the Holtsville Hotel ) for a cash purchase price of \$21.3 million, plus customary pro-rated amounts and closing costs, from Holtsville Hotel Group, LLC (collectively Holtsville Group ). The Holtsville Hotel will be managed by IHM pursuant to a management agreement between the Company TRS and IHM. The Company funded the purchase price for the Holtsville Hotel from the proceeds of its IPO.

The unaudited pro forma condensed consolidated balance sheet as of June 30, 2010 is based on the unaudited consolidated balance sheet of the Company as of June 30, 2010 and is presented as if the acquisition of the Houston and Holtsville Hotels occurred on June 30, 2010. The unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 2010 and for the year ended December 31, 2009 are presented as if the completion of the IPO and the acquisitions of the Initial Hotels, the Houston and Holtsville Hotels had occurred on January 1, 2009.

The unaudited pro forma financial information is not necessarily indicative of what the Company's results of operations or financial condition would have been assuming such transactions had been completed at the beginning of the periods presented, nor is it indicative of the Company's results of operations or financial condition for future periods. In management's opinion, all material adjustments necessary to reflect the effects of the significant acquisitions described above have been made. In addition, the unaudited pro forma financial information is based upon available information and upon assumptions and estimates, some of which are set forth in the notes to the unaudited pro forma financial information, which we believe are reasonable under the circumstances. The unaudited pro forma financial information and accompanying notes should be read in conjunction with the historical financial statements and notes thereto of the Company and the Initial Hotels included in the Company's Form S-11 and the Quarterly Reports on Form 10-Q for the three months ended March 31, 2010 and six months ended June 30, 2010.



**CHATHAM LODGING TRUST**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS OF JUNE 30, 2010**

*(In thousands, except share data)*

|  | <b>Chatham<br/>Lodging<br/>Trust(1)</b> | <b>Houston<br/>Acquisition(2)</b> | <b>Holtsville<br/>Acquisition(3)</b> | <b>Pro Forma<br/>Adjustments(4)</b> | <b>Pro Forma<br/>Chatham<br/>Lodging<br/>Trust</b> |
|--|---|-----------------------------------|--------------------------------------|-------------------------------------|--|
| <b>Assets:</b>   |   |                                   |                                      |                                     |  |
| Investment in hotel properties, net  | \$ 73,132                               | \$ 16,233                         | \$ 21,300                            | \$                                  | \$ 110,665   |
| Cash and cash equivalents  | 98,700                                  | (15,610)                          | (20,262)                             | (637)                               | 62,191   |
| Restricted cash  | 2,500                                   | (500)                             | (1,065)                              |                                     | 935  |
| Hotel receivables (net of allowance for doubtful accounts of approximately \$4)  | 699                                     | 24                                |                                      |                                     | 723  |
| Deferred costs, net  | 567                                     |                                   |                                      |                                     | 567  |
| Prepaid expenses and other assets  | 157                                     |                                   | 83                                   |                                     | 240  |
| <b>Total assets</b>  | <b>\$ 175,755</b>                       | <b>\$ 147</b>                     | <b>\$ 56</b>                         | <b>\$ (637)</b>                     | <b>\$ 175,321</b>                                  |
| <b>Liabilities and Equity:</b>   |   |                                   |                                      |                                     |  |
| Accounts payable and accrued expenses  | \$ 2,086                                | \$ 140                            | \$ 45                                | \$                                  | \$ 2,271   |
| Accrued underwriter fees.  | 5,175                                   |                                   |                                      |                                     | 5,175  |
| Advance deposits   | 59                                      | 7                                 | 11                                   |                                     | 77   |
| <b>Total liabilities</b>   | <b>7,320</b>                            | <b>147</b>                        | <b>56</b>                            |                                     | <b>7,523</b>                                       |
| Commitments and contingencies  |   |                                   |                                      |                                     |  |
| <b>Equity:</b>   |   |                                   |                                      |                                     |  |
| Shareholders' Equity:  |   |                                   |                                      |                                     |  |
| Preferred shares, \$0.01 par value, 100,000,000 shares authorized and unissued at June 30, 2010                          |   |                                   |                                      |                                     |  |
| Common shares, \$0.01 par value, 500,000,000 shares authorized; 9,201,550 shares issued and outstanding at June 30, 2010 | 92                                      |                                   |                                      |                                     | 92   |
| Additional paid-in capital   | 170,240                                 |                                   |                                      |                                     | 170,240  |
| Unearned compensation  | (1,404)                                 |                                   |                                      |                                     | (1,404)  |
| Retained earnings (deficit)  | (642)                                   |                                   |                                      | (637)                               | (1,279)  |



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|  |            |        |       |          |            |
|--|------------|--------|-------|----------|------------|
| Total shareholders' equity                       | 168,286    |        |       | (637)    | 167,649    |
| Noncontrolling Interests:                        |            |        |       |          |            |
| Noncontrolling interest in Operating Partnership | 149        |        |       |          | 149        |
| Total equity                                     | 168,435    |        |       | (637)    | 167,798    |
| Total liabilities and equity                     | \$ 175,755 | \$ 147 | \$ 56 | \$ (637) | \$ 175,321 |

See Notes to Unaudited Pro Forma Condensed Consolidated Balance Sheet

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**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET  
(in thousands, except share data)**

The accompanying Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2010 is based on the unaudited historical consolidated balance sheet of the Company as of June 30, 2010, adjusted to reflect the purchase of the Houston and Holtsville Hotels.

The Unaudited Pro Forma Condensed Consolidated Balance Sheet assumes the following occurred on June 30, 2010:

Completion of the purchase of the Houston Hotel

Completion of the purchase of the Holtsville Hotel

Payment of costs and expenses of approximately \$637 after June 30, 2010 related to the Houston and Holtsville Hotels.

**Notes and Management Assumptions:**

1) Represents the Company's unaudited historical consolidated balance sheet as of June 30, 2010. Included in deferred costs are franchise fees of \$59 for the Houston Hotel and \$62 for the Holtsville Hotel that were paid prior to June 30, 2010 and will be amortized over 10 and 15 year terms, respectively of the new franchise agreement. Included in retained earnings (deficit) at June 30, 2010 are expenses of \$29 related to the purchase of the Houston Hotel and \$61 for the Holtsville Hotel that were expensed prior to June 30, 2010.

2) Pursuant to the purchase and sale agreement for the Houston Hotel, there was a proration of operating results on the date of closing between the Company and Moody and this proration is reflected in pro forma adjustment 2b below. Other than the liabilities described in note 2c, which are based upon the amounts in the audited combined statement of financial position of the Houston Hotel at December 31, 2009, no other assets and liabilities will be acquired pursuant to the purchase and sale agreement between the Company and Moody.

a. Investment in hotels of \$16,233 is recorded at acquisition cost and depreciated using the straight line method over the estimated useful lives of the assets (5 years for furniture and equipment, 15 years for land improvements and 40 years for buildings and improvements). No intangible assets are expected to be recognized in connection with the purchase of the Houston Hotel based on the estimated values of the identifiable assets acquired. The allocation of the purchase price for the Houston Hotel is as follows:

| <b>Property</b>                              | <b>Purchase<br/>Price<br/>Allocation</b> | <b>Land</b> | <b>Building</b> | <b>Furniture<br/>&amp;<br/>Equipment</b> |
|--|--|-------------|-----------------|--|
| Hampton Inn & Suites® Houston-Medical Center | \$ 16,233                                | \$3,200     | \$12,708        | \$ 325                                   |

b. Accounts receivable of \$24 related to the Company's 50% share of the July 1, 2010 hotel revenue.

c. Accounts payable and accrued expenses of \$140, comprised of accrued real estate and personal property taxes of \$116, sales taxes of \$5, accounts payable of \$19 and advance deposits of \$7.

3) Pursuant to the purchase and sale agreement for the Holtsville Hotel, there was a proration of operating results on the date of closing between the Company and Holtsville Group and this proration is reflected in pro forma adjustment 3b below. Other than the liabilities described in note 3c, which are based upon the amounts in the audited combined statement of financial position of the Holtsville Hotel at December 31, 2009, no other assets and liabilities will be acquired pursuant to the purchase and sale agreement between the Company and Holtsville Group.

a. Investment in hotels of \$21,300 is recorded at acquisition cost and depreciated using the straight line method over the estimated useful lives of the assets (5 years for furniture and equipment, 15 years for land improvements and 40 years for buildings and improvements). No intangible assets are expected to be recognized in connection with the purchase of the Holtsville Hotel based on the estimated values of the identifiable assets acquired. The allocation of the purchase price for the Holtsville Hotel is as follows:

| <b>Property</b>  | <b>Purchase<br/>Price<br/>Allocation</b> | <b>Land</b> | <b>Building</b> | <b>Furniture<br/>&amp;<br/>Equipment</b> |
|--|--|-------------|-----------------|--|
| Residence Inn by Marriott® Holtsville  | \$ 21,300                                | \$2,200     | \$18,765        | \$ 335                                   |
| b. Prepaid expenses and other assets of \$83 related to prepaid expenses of \$7 and real estate taxes of \$76.                                       |  |             |                 |  |
| c. Accounts payable and accrued expenses of \$45, comprised of accrued sales taxes of \$8 and accounts payable of \$37 and advance deposits of \$11. |  |             |                 |  |
| 4) Represents the costs incurred by the Company after June 30, 2010 to complete the purchase of the Houston and Holtsville Hotels:                   |  |             |                 |  |
| a. Closing costs of \$260.   |  |             |                 |  |
| b. Costs associated with due diligence of \$42.  |  |             |                 |  |
| c. Accounting fees of \$216 for services related to the audit and reviews.   |  |             |                 |  |
| d. Legal fees of \$119.  |  |             |                 |  |

**CHATHAM LODGING TRUST**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2010**

*(In thousands, except share and per share data)*

|  | <b>Chatham</b>   |                |                |                   | <b>Pro</b>         | <b>Pro Forma</b> |
|--|------------------|----------------|----------------|-------------------|--------------------|------------------|
|  | <b>Lodging</b>   | <b>Initial</b> | <b>Houston</b> | <b>Holtsville</b> | <b>Forma</b>       | <b>Chatham</b>   |
|  | <b>Trust (1)</b> | <b>Hotels</b>  | <b>Hotel</b>   | <b>Hotel</b>      | <b>Adjustments</b> | <b>Lodging</b>   |
|  |                  | <b>(2)</b>     | <b>(3)</b>     | <b>(4)</b>        |                    | <b>Trust</b>     |
| <b>Revenue:</b>  |                  |                |                |                   |                    |                  |
| Hotel operating:   |                  |                |                |                   |                    |                  |
| Rooms  | \$ 4,544         | \$ 6,634       | \$ 1,931       | \$ 2,197          | \$                 | \$ 15,306        |
| Other operating  | 114              | 170            | 46             | 55                |                    | 385              |
| Total revenue  | 4,658            | 6,804          | 1,977          | 2,252             |                    | 15,691           |
| <b>Expenses:</b>   |                  |                |                |                   |                    |                  |
| Operating expenses:  |                  |                |                |                   |                    |                  |
| Rooms  | 1,070            | 1,352          | 368            | 479               |                    | 3,269            |
| Other  | 79               | 577            | 24             | 35                |                    | 715              |
| General and administrative   | 917              | 1,279          | 495            | 491               |                    | 3,182            |
| Sales and marketing fees   | 147              | 632            | 20             | 74                |                    | 873              |
| Franchise fees   | 343              | 266            | 207            | 165               | 18(5)              | 999              |
| Management fees  | 109              | 139            | 130            | 67                | (66)(6)            | 379              |
| Depreciation and amortization                                      | 402              |                | 218            | 193               | 1,731(7)           | 2,544            |
| Property taxes   | 247              | 525            | 144            | 124               |                    | 1,040            |
| Corporate general and administrative                               | 972              |                |                |                   | 1,021(8)           | 1,993            |
| Acquisition transaction costs                                      | 1,005            |                |                |                   | (1,005)(9)         |                  |
| Total expenses   | 5,291            | 4,770          | 1,606          | 1,628             | 1,699              | 14,994           |
| Operating income (loss)  | (633)            | 2,034          | 371            | 624               | (1,699)            | 697              |
| Interest expense   |                  | (1,084)        | (402)          | (361)             | 1,847(10)          |                  |
| Interest income  | 38               |                |                |                   |                    | 38               |
| Income (loss) from continuing operations before income tax expense | (595)            | 950            | (31)           | 263               | 148                | 735              |
| Income taxes   | (47)             |                |                |                   | (11)(11)           | (58)             |
| Income(loss) from continuing operations                            | \$ (642)         | \$ 950         | \$ (31)        | \$ 263            | \$ 137             | \$ 677           |
| <b>Earnings per share data:</b>                                    |                  |                |                |                   |                    |                  |
| Basic and diluted continuing operations                            | \$ (0.18)        |                |                |                   |                    | \$ 0.11          |

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Basic and diluted  
weighted average  
shares

3,580,028

(12)

6,360,666

See Notes to Unaudited Pro Forma Condensed Consolidated Statement of Operations

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**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010**

**(in thousands, except share data)**

- 1) The Company was formed on October 26, 2009. There were no results of operations for the Company for the period from inception through April 21, 2010.
- 2) Represents the combined unaudited historical results of operations of the Initial Hotels from January 1, 2010 to the acquisition date of April 23, 2010.
- 3) Represents the unaudited historical results of operations of the Houston Hotel for the six months ended June 30, 2010
- 4) Represents the unaudited historical results of operations of the Holtsville Hotel for the six months ended June 30, 2010. The historical audited financial statements of the Holtsville Hotel are included herein.
- 5) Reflects the adjustment to amortization of franchise fees based on the franchise application fees paid of \$511 and the remaining terms of the new franchise applications, which are 15 years from the closing of the purchase of the Initial Hotels and Holtsville Hotel and 10 years from the closing of the Houston Hotel.
- 6) Reflects the adjustment to management fees for contractual differences on the Houston Hotel. The previous management company was paid a 4% management fee. There was an additional asset management fee payment of 1%. The new management contract reflects a 3% management fee. Also reflects the adjustment for the contractual difference in the cost of accounting fees.
- 7) Reflects net increase to depreciation expense based on the Company's cost basis in the Initial Hotels, Houston Hotel and Holtsville Hotel and its accounting policy for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 5 years for furniture and equipment, 15 years for land improvements and 40 years for buildings and improvements.
- 8) The Company was formed on October 26, 2009 and completed its IPO on April 21, 2010 and thus there was no corresponding corporate general and administrative expense until April 21, 2010. Reflects the adjustment to include corporate general and administrative expenses for the period from January 1, 2010 to June 30, 2010, including:
  - a. Salaries and benefits of \$337, of which \$298 is to be paid to the Company's executive officers, who are currently Jeffrey H. Fisher, the Chairman, President and Chief Executive Officer of the Company, Peter Willis, Executive Vice President and Chief Investment Officer of the Company, Dennis Craven, Executive Vice President and Chief Financial Officer of the Company.
  - b. Amortization of restricted shares of \$67 to Messrs. Fisher, Willis and Craven based on a three-year vesting period. The aggregate estimated value of the restricted share awards are \$295 to Mr. Fisher, \$197 to Mr. Willis and \$176 to Mr. Craven.
  - c. Amortization of LTIP unit awards of \$236 to Messrs. Fisher, Willis and Craven based on a five-year vesting period. The aggregate undiscounted estimated value of the LTIP unit awards are \$3,979 for Mr. Fisher, \$652 for Mr. Willis and \$525 for Mr. Craven. After applying the share-based payment accounting guidance, the estimated discounted values of the LTIP awards are \$3,020 for Mr. Fisher, \$495 for Mr. Willis and \$398 for Mr. Craven. The discounted value is used for the purposes of determining the amortization.
  - d. Cash compensation of \$100 and restricted share compensation of \$170 to the Trustees.
  - e. Directors and officers insurance of \$86.
  - f. General office expenses including rent of \$25
- 9) Reflects the adjustment for one-time hotel acquisition costs which are not recurring and thus excluded from the pro forma results of operations.
- 10) Reflects the decrease to interest expense associated with defeasing the existing loans upon the purchase of the Initial Hotels, the Houston Hotel and Holtsville Hotel. RLJ, Moody and the Holtsville Group are

required under the terms of the purchase and sale agreements to cause the defeasance to occur on or before the closing of the purchase of the hotels. The purchase price for the Initial, Houston and Holtsville Hotels was fully funded from equity proceeds of the IPO.

11) Reflects the adjustment to recognize income tax expense at an effective rate of 40% on the taxable income of the Company's TRS.

12)

|  | <b>Chatham</b> | <b>Pro Forma<br/>Chatham</b> |
|--|----------------|------------------------------|
| <b>Numerator</b>   |                |                              |
| Income (loss) from continuing operations                                       | \$ (642)       | \$ 677                       |
| <b>Denominator</b>   |                |                              |
| Shares issued in the offering, net of unvested restricted shares and units (1) |                | 9,201,550                    |
| Impact from offering proceeds not used for acquisitions (2)                    |                | (2,840,884)                  |
| Denominator for basic earnings per share                                       | 3,580,028      | 6,360,666                    |
| Denominator for diluted earnings per share                                     | 3,580,028      | 6,360,666                    |

**Income (loss) per share data:**

|                               |           |         |
|-------------------------------|-----------|---------|
| Basic continuing operations   | \$ (0.18) | \$ 0.11 |
| Diluted continuing operations | \$ (0.18) | \$ 0.11 |

- 1) Consideration was given to the impact of the unvested awards. The impact was determined to be immaterial.
- 2) The denominator in computing pro forma earnings per share should include only those common shares whose proceeds are being reflected in pro forma adjustments in the income statement, such as proceeds used for acquisitions and offering costs. In the Pro Forma Condensed Consolidated Balance Sheet, uses of proceeds from the IPO are as follows:

|  |                |
|--|----------------|
| Initial Hotels   | \$ 73,514      |
| Houston Hotel  | 16,233         |
| Holtsville Hotel   | 21,300         |
| Costs to complete the purchase of the Initial Hotels and Houston Hotel | 1,462          |
| Costs for the IPO  | 13,646         |
| <br>Total use of proceeds from the IPO                                 | <br>\$ 126,155 |
| <br>Total use of proceeds as a percentage of the IPO                   | <br>69.13%     |
| Offering proceeds not used   | 30.87%         |

Accordingly, in calculating the denominator for earnings per share, we only include 69.13% of the

**CHATHAM LODGING TRUST**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

*(In thousands, except share and per share data)*

|   | <b>Chatham</b>                   |                                   |                                  |                                     |                                      | <b>Pro Forma</b>                     |
|---|----------------------------------|-----------------------------------|----------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|
|   | <b>Lodging<br/>Trust<br/>(1)</b> | <b>Initial<br/>Hotels<br/>(2)</b> | <b>Houston<br/>Hotel<br/>(3)</b> | <b>Holtsville<br/>Hotel<br/>(4)</b> | <b>Pro<br/>Forma<br/>Adjustments</b> | <b>Chatham<br/>Lodging<br/>Trust</b> |
| <b>Revenue:</b>   |                                  |                                   |                                  |                                     |                                      |                                      |
| Hotel operating:  |                                  |                                   |                                  |                                     |                                      |                                      |
| Rooms   | \$                               | \$ 21,193                         | \$ 3,557                         | \$ 4,398                            | \$                                   | \$ 29,148                            |
| Other operating   |                                  | 545                               | 77                               | 111                                 |                                      | 733                                  |
| Total revenue   |                                  | 21,738                            | 3,634                            | 4,509                               |                                      | 29,881                               |
| <b>Expenses:</b>  |                                  |                                   |                                  |                                     |                                      |                                      |
| Operating expenses:   |                                  |                                   |                                  |                                     |                                      |                                      |
| Rooms   |                                  | 4,239                             | 724                              | 901                                 |                                      | 5,864                                |
| Other   |                                  | 1,687                             | 47                               | 69                                  |                                      | 1,803                                |
| General and<br>administrative   |                                  | 4,581                             | 838                              | 1,006                               | (74)(5)                              | 6,351                                |
| Sales and marketing fees  |                                  | 2,021                             | 134                              | 155                                 |                                      | 2,310                                |
| Franchise fees  |                                  | 848                               | 285                              | 330                                 | 36(6)                                | 1,499                                |
| Management fees   |                                  | 458                               | 216                              | 135                                 | (95)(7)                              | 714                                  |
| Depreciation and<br>amortization  |                                  | 2,619                             | 435                              | 506                                 | 1,527(8)                             | 5,087                                |
| Property taxes  |                                  | 1,255                             | 391                              | 239                                 |                                      | 1,885                                |
| Corporate general and<br>administrative                                     |                                  |                                   |                                  |                                     | 3,387(9)                             | 3,387                                |
| Total expenses  |                                  | 17,708                            | 3,070                            | 3,341                               | 4,781                                | 28,900                               |
| Operating income (loss)   |                                  | 4,030                             | 564                              | 1,168                               | (4,781)                              | 981                                  |
| Writedown of<br>development costs   |                                  |                                   |                                  | 95                                  | (95)(10)                             |                                      |
| Interest expense  |                                  | (3,573)                           | (854)                            | (139)                               | 5,166(11)                            |                                      |
| Income (loss) from<br>continuing operations<br>before income tax<br>expense |                                  | 457                               | (290)                            | 334                                 | 290                                  | 981                                  |
| Income taxes  |                                  |                                   |                                  |                                     | (169)(12)                            | (169)                                |
| Income(loss) from<br>continuing operations                                  | \$                               | \$ 457                            | \$ (290)                         | \$ 334                              | \$ 121                               | \$ 812                               |



**Earnings per share  
data:**

|  |       |      |    |           |
|--|-------|------|----|-----------|
| Basic and diluted<br>continuing operations   | \$    |      | \$ | 0.13      |
| Basic and diluted<br>weighted average shares | 1,000 | (13) |    | 6,360,666 |

See Notes to Unaudited Pro Forma Condensed Consolidated Statement of Operations

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**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**(in thousands, except share data)**

- 1) The Company was formed on October 26, 2009. There were no results of operations for the Company for the period from inception to December 31, 2009.
- 2) Represents the combined audited historical results of operations of the Initial Hotels for the year ended December 31, 2009.
- 3) Represents the audited historical results of operations of the Houston Hotel for the year ended December 31, 2009.
- 4) Represents the audited historical results of operations of the Holtsville Hotel for the year ended December 31, 2009. The historical audited financial statements of the Holtsville Hotel are included herein.
- 5) Reflects the adjustment to general and administrative expense for corporate allocated costs from the Initial Hotels that were included in the historical results of operations of \$74.
- 6) Reflects the adjustment to amortization of franchise fees based on the franchise application fees paid of \$511 and the remaining terms of the new franchise applications, which are 15 years from the closing of the purchase of the Initial Hotels and Holtsville Hotel and 10 years from the closing of the Houston Hotel.
- 7) Reflects the adjustment to management fees for contractual differences on the Houston Hotel. The previous management company was paid a 4% management fee. There was an additional asset management fee payment of 1%. The new management contract reflects a 3% management fee. Also reflects the adjustment for the contractual difference in the cost of accounting fees.
- 8) Reflects net increase to depreciation expense based on the Company's cost basis in the Initial Hotels, Houston Hotel and Holtsville Hotel and its accounting policy for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 5 years for furniture and equipment, 15 years for land improvements and 40 years for buildings and improvements.
- 9) The Company was formed on October 26, 2009 and thus there was no corresponding corporate general and administrative expense for the year ended December 31, 2009. Reflects the adjustment to include corporate general and administrative expenses that the Company expects to pay, including:
  - a. Salaries and benefits of \$1,119, of which \$989 is to be paid to the Company's executive officers, who are currently Jeffrey H. Fisher, the Chairman, President and Chief Executive Officer of the Company, Peter Willis, Executive Vice President and Chief Investment Officer of the Company, Dennis Craven, Executive Vice President and Chief Financial Officer of the Company.
  - b. Amortization of restricted shares of \$223 to Messrs. Fisher, Willis and Craven based on a three-year vesting period. The aggregate estimated value of the restricted share awards are \$295 to Mr. Fisher, \$197 to Mr. Willis and \$176 to Mr. Craven.
  - c. Amortization of LTIP unit awards of \$783 to Messrs. Fisher, Willis and Craven based on a five-year vesting period. The aggregate undiscounted estimated value of the LTIP unit awards are \$3,979 for Mr. Fisher, \$652 for Mr. Willis and \$525 for Mr. Craven. After applying the share-based payment accounting guidance, the estimated discounted values of the LTIP awards are \$3,020 for Mr. Fisher, \$495 for Mr. Willis and \$398 for Mr. Craven. The discounted value is used for the purposes of determining the amortization.

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- d. Cash compensation of \$333 and restricted share compensation of \$563 to the Trustees.
- e. Directors and officers insurance of \$287.
- f. General office expenses including rent of \$79.

10) Write off of \$95 of development costs that were expensed in the Holtsville Hotel.

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- 11) Reflects the decrease to interest expense associated with defeasing the existing loans upon the purchase of the Initial Hotels, the Houston Hotel and Holtsville Hotel. RLJ, Moody and Holtsville Group are required under the terms of the purchase and sale agreements to cause the defeasance to occur on or before the closing of the purchase of the hotels. The purchase price for the Initial, Houston and Holtsville Hotels was fully funded from equity proceeds of the IPO.
- 12) Reflects the adjustment to recognize income tax expense at an effective rate of 40% on the taxable income of the Company's TRS.
- 13)

|  | <b>Chatham</b> | <b>Pro Forma<br/>Chatham</b> |
|--|----------------|------------------------------|
| <b>Numerator</b>   |                |                              |
| Income (loss) from continuing operations                                       | \$             | \$ 812                       |
| <b>Denominator</b>   |                |                              |
| Shares issued in the offering, net of unvested restricted shares and units (1) | 1,000          | 9,201,550                    |
| Impact from offering proceeds not used for acquisitions (2)                    |                | (2,840,884)                  |
| Denominator for basic earnings per share                                       | 1,000          | 6,360,666                    |
| Denominator for diluted earnings per share                                     | 1,000          | 6,360,666                    |

**Income (loss) per share data:**

|                               |    |         |
|-------------------------------|----|---------|
| Basic continuing operations   | \$ | \$ 0.13 |
| Diluted continuing operations | \$ | \$ 0.13 |

- 1) Consideration was given to the impact of the unvested awards. It was determined that the effect would be anti-dilutive in the calculation of diluted earnings per share.
- 2) The denominator in computing pro forma per share should include only those common shares whose proceeds are being reflected in pro forma adjustments in the income statement, such as proceeds used for acquisitions and offering costs. In the Pro Forma Condensed Consolidated Balance Sheet, uses of proceeds from the IPO are as follows:

|  |            |
|--|------------|
| Initial Hotels   | \$ 73,514  |
| Houston Hotel  | 16,233     |
| Holtsville Hotel   | 21,300     |
| Costs to complete the purchase of the Initial Hotels and Houston Hotel | 1,462      |
| Costs for the IPO  | 13,646     |
| Total use of proceeds from the IPO                                     | \$ 126,155 |
| Total use of proceeds as a percentage of the IPO                       | 69.13%     |
| Offering proceeds not used   | 30.87%     |

Accordingly, in calculating the denominator for earnings per share, we only include 69.13% of the